

JCB Service

Directors' Report and Consolidated Financial Statements

for the Year Ended 31 December 2007

Registration number: 564955

SATURDAY



AR2DK67D

A24

03/01/2009

70

COMPANIES HOUSE

Howsons
Chartered Accountants and Registered Auditors
Winton House
Stoke Road
Stoke on Trent
ST4 2RW

JCB SERVICE
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2007.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company and of the group at the end of the financial year and of the profit and loss of the group for the period ending on that date. In preparing those financial statements, directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and group and to prevent and detect fraud and other irregularities.

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of.

Principal activities

The group's principal activities during the year have been 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, agricultural and industrial markets.

A geographical analysis of turnover is given in Note 2 to the accounts.

JCB SERVICE

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

.....continued

Business Review

Market trends seen in the previous two years continued throughout 2007, helping JCB Service deliver a 28% increase in turnover to a new record of £2,133.4 million (2006 - £1,664.1 million). Emerging markets continued to drive overall market growth with India, Eastern Europe, and Russia all growing substantially, whilst the North American market, which was slowing down in 2006, contracted in 2007.

The currency environment was on balance more favourable this year, with a weaker dollar being offset by a stronger Euro in the last quarter of the year. This together with strong top line growth contributed to a 55% increase in operating profit to £163.1 million (2006 - £105.2 million). Investment in product range expansion continued in the year, although with the Dieselmax project now complete and the land speed record broken, research and development expenditure reduced in 2007 to £29.9 million (2006 - £32.7 million).

Improved profit performance has driven a 48% increase in cash flow from operating activities to £177.0 million (2006 - £119.8 million). Net capital expenditure grew to £56.4 million (2006 - £37.3 million) with investment in new capacity in India and UK required to support continued business growth. Listed investments were disposed of in the year generating proceeds of £111.6 million (2006 - £2.2 million) which helped net cash flow to an inflow of £144.4 million (2006 - £38.1 million outflow). The balance sheet continues to be strong and more than capable of supporting the business.

The outlook is less positive than in previous years, with western economies struggling to cope with recent events in financial markets, and commodity prices, particularly steel, rising rapidly. There is no doubt that JCB Service will be operating in a more challenging environment in 2008, but with a continued focus on cash generation, and a strong balance sheet, it is well placed to cope with this environment. The recent strengthening of the Euro has also benefited the business, and we will continue to assess currency exposures and adopt a prudent approach to forward cover.

Directors and their interests

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

- Sir Anthony Bamford DL
- Lady Bamford OBE
- M J C Bamford
- J Patterson
- J C E Bamford

None of the directors had an interest in the shares of the company at any time during the year.

At 31 December 2007 and 2006, Sir Anthony Bamford DL held 2.22% of the issued share capital of JCB Inc.

Employment of disabled persons

Applications for employment from disabled persons are considered on their merits and regard is paid only to the ability of an applicant to carry out satisfactorily the functions required. The same policy is adopted when considering career development and promotion, while in the field of training, a distinction would only be made in order to meet the particular requirements of the disabled person. If an employee were to become disabled whilst in employment all due consideration would be given to continued employment, whether in the same or in an alternative capacity, and training would be given where necessary.

JCB SERVICE
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

.....continued

Employee involvement

The Board acknowledges 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.

Post balance sheet events

On 31 March 2008, JCB Service acquired JCB Compact Products Limited from Sir Anthony Bamford and his family. The gross value of the company was £250.0 million being £207.0 million enterprise value and £43.0 million of loans due to JCB Compact Products Limited by its subsidiary, Editallied Limited. Borrowings of £9.3 million left net consideration at £240.7 million. The acquisition excluded Editallied Limited. Sir Anthony Bamford and his family funded Editallied Limited to repay the £43.0 million of loans due to JCB Compact Products Limited, resulting in a net cash receipt by Sir Anthony Bamford and his family of £197.7 million. The company has agreed to sell and Sir Anthony Bamford and his family have agreed to buy back the micro products division of JCB Compact Products Limited. Additionally Sir Anthony Bamford and his family retain 'B' and 'C' shares in JCB Compact Products Limited giving them the right to proceeds from any future repayment of its loan to JCB World Brands Limited.

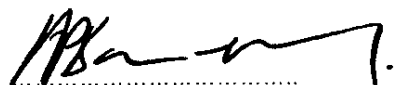
Donations

The total amount given for charitable purposes during the year was £0.4 million (2006 - £0.8 million).

Auditors

The auditors, Howsons, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985.

Approved by the Board and signed on its behalf by:



.....
Sir Anthony Bamford DL
Chairman

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 2007 set out on pages 6 to 36. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of Directors' responsibilities on page 1, the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

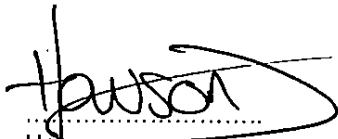
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
JCB SERVICE**

.....continued

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's profit for the year then ended: and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors' Report is consistent with the financial statements.



.....
Howson

Chartered Accountants and Registered Auditors

Winton House
Stoke Road
Stoke On Trent
ST4 2RW

Date: 9 June 2008

JCB SERVICE

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR 31 DECEMBER 2007

	Note	2007 £m	2006 £m
Turnover	2	2,133.4	1,664.1
Cost of sales		<u>(1,730.5)</u>	<u>(1,339.0)</u>
Gross profit		402.9	325.1
Distribution costs		(99.0)	(89.6)
Administrative expenses		<u>(140.8)</u>	<u>(130.3)</u>
Operating profit	4	163.1	105.2
Profit on sale of investments		14.2	4.7
Other interest receivable and similar income		16.5	9.2
Interest payable and similar charges	7	(19.8)	(17.6)
(Loss)/profit on revaluation of investments	8	<u>(1.0)</u>	<u>44.9</u>
Profit on ordinary activities before taxation		173.0	146.4
Tax on profit on ordinary activities	9	<u>(52.9)</u>	<u>(50.7)</u>
Profit on ordinary activities after taxation		120.1	95.7
Minority interests	10	<u>-</u>	<u>(1.2)</u>
Retained profit for the financial year	24	<u><u>120.1</u></u>	<u><u>94.5</u></u>

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own profit and loss account.

JCB SERVICE
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE
YEAR ENDED 31 DECEMBER 2007

	2007	2006
	£m	£m
Net profit for the year	120.1	94.5
Foreign currency translation differences	14.5	(7.4)
Actuarial gain recognised in net pension liability	6.2	26.3
Total gains for the year	<u>140.8</u>	<u>113.4</u>

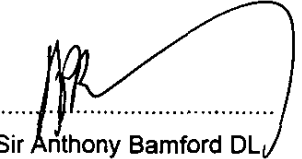
NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED
31 DECEMBER 2007

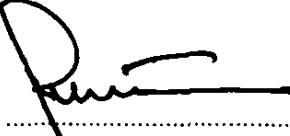
	2007	2006
	£m	£m
Profit on ordinary activities before taxation	173.0	146.4
Unrealised loss/(gain) on revaluation of current asset investments	1.0	(46.3)
Historical cost profit on ordinary activities before taxation	<u>174.0</u>	<u>100.1</u>
Historical cost profit for the year after taxation	<u>120.8</u>	<u>63.3</u>

JCB SERVICE
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 £m	2007 £m	2006 £m	2006 £m
Fixed assets					
Intangible assets	12		33.4		35.5
Tangible assets	13		293.5		255.2
Investments	14		-		-
			<u>326.9</u>		<u>290.7</u>
Current Assets					
Stocks	15	207.6		166.7	
Debtors	16	241.3		169.3	
Investments	17	23.0		120.5	
Cash at bank and in hand		<u>292.6</u>		<u>140.9</u>	
		764.5		597.4	
Creditors: Amounts falling due within one year	18	<u>(442.5)</u>		<u>(319.3)</u>	
Net current assets			322.0		278.1
Total assets less current liabilities			<u>648.9</u>		<u>568.8</u>
Creditors: Amounts falling due after more than one year	19		(24.5)		(25.1)
Provisions for liabilities	20		(40.9)		(57.7)
Net assets excluding pension liabilities			<u>583.5</u>		<u>486.0</u>
Pension liabilities:					
Total of defined benefit schemes:					
With net liabilities	21		(17.1)		(27.4)
Net assets including pension liabilities			<u>566.4</u>		<u>458.6</u>
Capital and reserves					
Called up share capital	22		-		-
Share premium reserve	24		31.7		31.7
Other reserves	24		39.3		38.8
Profit and loss reserve	24		<u>495.4</u>		<u>388.1</u>
Equity shareholders' funds			566.4		458.6
Minority interests	10		-		-
Total funds			<u>566.4</u>		<u>458.6</u>

Approved by the Board on 9 June 2008 and signed on its behalf by:

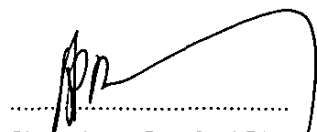

 Sir Anthony Bamford DL
 Chairman

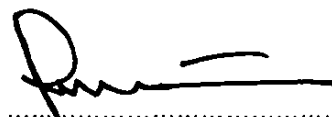

 J Patterson
 Director

JCB SERVICE
BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 £m	2007 £m	2006 £m	2006 £m
Fixed assets					
Tangible assets	13		18.8		15.6
Investments	14		85.4		84.8
			<u>104.2</u>		<u>100.4</u>
Current assets					
Stocks	15	36.7		32.7	
Debtors	16	49.6		48.0	
Investments	17	0.1		0.1	
Cash at bank and in hand		<u>213.3</u>		<u>174.8</u>	
		299.7		255.6	
Creditors: Amounts falling due within one year	18	<u>(50.3)</u>		<u>(36.9)</u>	
Net current assets			<u>249.4</u>		<u>218.7</u>
Total assets less current liabilities			353.6		319.1
Creditors: Amounts falling due after more than one year	19		(20.1)		(20.4)
Provisions for liabilities	20		(9.6)		(8.3)
Net assets			<u>323.9</u>		<u>290.4</u>
Capital and reserves					
Called up share capital	22		-		-
Share premium reserve	24		31.7		31.7
Other reserves	24		-		-
Profit and loss reserve	24		<u>292.2</u>		<u>258.7</u>
Equity shareholders' funds			<u>323.9</u>		<u>290.4</u>

Approved by the Board on 9 June 2008 and signed on its behalf by:


 Sir Anthony Bamford DL
 Chairman


 J Patterson
 Director

JCB SERVICE
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £m	2007 £m	2006 £m	2006 £m
Net cash flow from operating activities	26		177.0		119.8
Returns on investment and servicing of finance	27		(0.7)		(19.1)
Taxation	27		(51.0)		(35.2)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(62.4)		(44.6)	
Sale of tangible fixed assets		<u>6.0</u>		<u>7.3</u>	
			(56.4)		(37.3)
Acquisitions and disposals					
Acquisition of subsidiary undertakings		(2.2)		(18.1)	
Net cash disposed with subsidiaries		<u>-</u>		<u>(1.0)</u>	
			(2.2)		(19.1)
Equity dividend paid			<u>(33.0)</u>		<u>(45.5)</u>
Cash inflow/(outflow) before management of liquid resources and financing			33.7		(36.4)
Management of liquid resources					
Acquisition of current asset investments		(0.9)		(3.9)	
Disposal of current asset investments		<u>111.6</u>		<u>2.2</u>	
			110.7		(1.7)
Net cash flow			<u>144.4</u>		<u>(38.1)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	2007 £m	2006 £m
Increase/(decrease) in cash in the year		144.4	(38.1)
Net cash outflow from increase in current asset listed investments		(97.2)	(0.3)
Other changes in current asset listed investments		(1.0)	46.3
Translation differences		<u>2.9</u>	<u>(0.2)</u>
Movement in net debt in the period		49.1	7.7
Net funds at the start of the year	28	<u>224.8</u>	<u>217.1</u>
Net funds at the end of the year	28	<u>273.9</u>	<u>224.8</u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain current asset investments, and in accordance with applicable accounting standards. A summary of the more important group accounting policies is shown below.

Basis of consolidation and accounting for other investments

The group accounts comprise a consolidation of the accounts of the company and its material subsidiaries at 31 December 2007. Results of subsidiary companies acquired or sold during the year are accounted for from or to the effective date of acquisition or disposal, as appropriate.

Certain subsidiaries are excluded from the consolidation, either because they are not material or because they are held exclusively for resale. Fixed and current asset investments in non-consolidated subsidiaries, associated companies and unquoted investments are stated at cost.

Provision is made for any diminution in the value of an investment which is considered to be permanent, based on the higher of value in use and net realisable value.

Current asset investments are stated at the lower of cost and realisable value, except those listed investments held by J C Bamford Investments, the group's investment trading company, which are stated at market value and the difference between cost and market value is taken to the profit and loss account. These are defined as liquid resources for the purposes of the cashflow statement. This treatment is a departure from UK accounting rules which stipulate that unrealised profits be credited to a revaluation reserve. In the opinion of the directors, the treatment adopted is necessary to present a true and fair view. All such investments are readily marketable securities. The accounting treatment adopted represents a fairer reflection of the investment return.

The results of associated companies are not included in the group accounts because, in the opinion of the directors, they are not material. Income from them is taken in the year it arises and information about them is given in Note 14.

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, and revenue from the provision of services when earned.

Goodwill

Goodwill, representing the excess of the cost of the 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 economic life of between 10 and 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.

JCB SERVICE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Depreciation

Depreciation is calculated so as to write-off the original cost by equal annual instalments over the expected useful lives of the assets concerned, other than freehold land and assets in the course of construction or not in use which are not depreciated.

The principal rates used are:

Freehold Buildings - industrial	2%
Freehold Buildings - non industrial	1%
Computers	20/25%
Plant and machinery	10%
Motor vehicles	25%
Fixtures, fittings and office equipment	10%
Aircraft - jet	6.67%
Aircraft - helicopters	6.67%

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

Stock and work in progress

Stock and work in progress are valued 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 overheads. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

Pensions

Pension costs - group

In the UK, retirement 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. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The resultant pension deficit is recognised in full. The movement in the deficit is split between operating charges, interest payable and, in the statement of recognised gains and losses, actuarial gains and losses. Pension costs relating to defined contribution arrangements are charged to the profit and loss account as incurred.

Overseas pension costs are largely related to defined contribution arrangements and are charged to the profit and loss account as incurred, except in the case of five defined benefit schemes, which are accounted for as above.

Pension costs - company

Retirement 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 contributions schemes by charging them to the profit and loss account as incurred.

JCB SERVICE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Deferred Tax

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

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

In the company and its subsidiaries, assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate prevailing at the balance sheet date, or at forward rates to the extent that related currency contracts are in place. The results and cash flows of overseas subsidiaries are translated into sterling at the average exchange rates ruling during the financial year.

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 in accordance with SSAP 20. Other transactional exchange differences are taken to the profit and loss account.

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 charged against revenue as incurred with the exception of expenditure related to a specific long-term contract, whose outcome is reasonably certain as regards viability and technical feasibility. Such expenditure has been capitalised within debtors and amortisation commenced with commercial production, with the amortisation charge being allocated on a systematic basis to each accounting period, by reference to the number of machines which the contract extends. Deferred development expenditure will be reviewed at the end of each accounting period and where the circumstances which have justified the deferral of the expenditure no longer apply, the expenditure will be written off.

Repairs and renewals

All repairs and renewals are charged against revenue as incurred.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

2 TURNOVER

An analysis of turnover by geographical market is given below:

	2007	2006
	£m	£m
United Kingdom	435.5	351.9
Europe	966.1	724.3
The Americas	233.3	262.9
India	341.5	205.2
Middle East	74.5	45.9
Australia and the Far East	56.3	46.6
Africa	26.2	27.3
	<u>2,133.4</u>	<u>1,664.1</u>

In the opinion of the directors, the JCB group companies are engaged in a single class of business: the manufacture and distribution of machines and related parts in the construction and agricultural industries.

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 are of the opinion that to comply fully with the requirements of SSAP 25 "Segmental Reporting" would be seriously prejudicial to the interests of the group. Therefore profits and net assets by geographical area are not disclosed.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2007 £m	2006 £m
Government grants	(0.1)	(0.2)
Research and development expenditure	29.9	32.7
Hire of plant and machinery	2.1	1.2
Auditors' remuneration - audit services	0.3	0.3
Auditors' remuneration - taxation services	0.1	0.1
Foreign currency gains/(losses)	(14.5)	14.0
Profit on sale of tangible fixed assets	(2.7)	(0.6)
Depreciation of tangible fixed assets	25.1	22.6
Amortisation of goodwill	2.1	1.6

5 PARTICULARS OF EMPLOYEES

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

	2007 No.	2006 No.
Overseas employees	2,010	1,782
Administration and service	1,507	1,309
Directors	5	5
Production	2,772	2,424
Temporary employees	401	401
	<u>6,695</u>	<u>5,921</u>

The aggregate payroll costs of these persons were as follows:

	2007 £m	2006 £m
Wages and salaries	220.7	178.0
Social security	21.7	17.3
Other pension costs	5.9	(22.3)
	<u>248.3</u>	<u>173.0</u>

Other pension costs include £10.3 million gross actuarial gains (2006 - £37.5 million) recognised in the Statement of Total Recognised Gains and Losses.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

6 DIRECTORS' EMOLUMENTS

The directors' emoluments for the year are as follows:

	2007 £'000	2006 £m
Directors' emoluments	<u>870</u>	<u>711</u>

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

	2007 No.	2006 No.
Defined benefit	<u>2</u>	<u>3</u>

The aggregate emoluments of the highest paid director (excluding pension contributions) were £360,000 (2006 - £265,000).

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £m	2006 £m
Discounting charges	16.4	13.4
Bank loans and overdrafts - repayable within 5 years	2.2	0.9
Bank loan - repayable after 5 years	1.2	1.3
Other interest	-	1.0
Other finance costs (Note 21)	-	1.0
	<u>19.8</u>	<u>17.6</u>

8 (LOSS)/PROFIT ON REVALUATION OF INVESTMENTS

	2007 £m	2006 £m
Listed investments	(1.0)	46.3
Unlisted investments	-	(1.2)
Shares in group undertakings	-	(0.2)
	<u>(1.0)</u>	<u>44.9</u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

9 ANALYSIS OF CURRENT PERIOD TAX CHARGE

	2007 £m	2006 £m
Current tax		
Corporation tax charge	46.2	18.0
Over provision in previous year	(0.6)	(1.5)
UK Corporation tax	<u>45.6</u>	<u>16.5</u>
Overseas tax charge	28.0	16.0
Under provision in previous year	0.2	-
Foreign tax	<u>28.2</u>	<u>16.0</u>
Total current tax	<u><u>73.8</u></u>	<u><u>32.5</u></u>
Deferred tax		
Timing differences	(14.4)	15.4
Deferred tax adjustment relating to previous years	(6.5)	2.8
Total deferred tax	<u><u>(20.9)</u></u>	<u><u>18.2</u></u>
Total tax on profit on ordinary activities	<u><u>52.9</u></u>	<u><u>50.7</u></u>

Factors affecting current period tax charge

The tax assessed on the profit on ordinary activities for the year is higher than (2006 - lower than) the standard rate of corporation tax in the UK of 30.00% (2006 - 30.00%).

The differences are reconciled below:

	2007 £m	2006 £m
Profit on ordinary activities before taxation	<u>173.0</u>	<u>146.4</u>
Standard rate corporation tax charge	51.9	43.9
Excess of capital allowances over depreciation charge	(2.3)	(0.6)
Permanent differences	5.1	1.2
Short term timing differences	16.9	(15.0)
Other differences	-	-
Tax losses in overseas companies not utilised	(0.6)	0.7
Rate differences	3.2	3.8
Over provision in previous year	(0.4)	(1.5)
Total current tax for the year	<u><u>73.8</u></u>	<u><u>32.5</u></u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

10 MINORITY INTERESTS

	2007 £m	2006 £m
Opening balance	-	6.2
Retained profit for the year	-	1.2
Purchase of minority interests by group	-	(7.4)
Closing balance	<u>-</u>	<u>-</u>
Equity	<u>-</u>	<u>-</u>

11 DIVIDENDS PAID

	2007 £m	2006 £m
Equity dividends paid	<u>33.0</u>	<u>45.5</u>

12 INTANGIBLE FIXED ASSETS

GROUP	Goodwill £m
Cost	
As at 1 January 2007 and 31 December 2007	<u>41.9</u>
Amortisation	
As at 1 January 2007	6.4
Charge for the year	<u>2.1</u>
As at 31 December 2007	<u>8.5</u>
Net book value	
As at 31 December 2007	<u>33.4</u>
As at 31 December 2006	<u>35.5</u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

13 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
Cost						
As at 1 January 2007	169.7	174.2	103.3	10.4	18.5	476.1
Additions	10.9	13.3	22.2	1.7	17.2	65.3
Disposals	(0.2)	(3.6)	(6.4)	(2.4)	-	(12.6)
Reclassifications	2.2	6.6	11.1	-	(19.9)	-
Currency adjustments	0.9	1.2	0.6	0.1	0.3	3.1
As at 31 December 2007	<u>183.5</u>	<u>191.7</u>	<u>130.8</u>	<u>9.8</u>	<u>16.1</u>	<u>531.9</u>
Depreciation						
As at 1 January 2007	41.6	117.1	57.5	4.7	-	220.9
Charge for the year	3.8	12.6	7.2	1.5	-	25.1
Eliminated on disposals	(0.2)	(2.0)	(6.4)	(0.7)	-	(9.3)
Reclassifications	0.8	0.9	(2.4)	0.7	-	-
Currency adjustments	0.5	0.6	0.5	0.1	-	1.7
As at 31 December 2007	<u>46.5</u>	<u>129.2</u>	<u>56.4</u>	<u>6.3</u>	<u>-</u>	<u>238.4</u>
Net book value						
As at 31 December 2007	<u>137.0</u>	<u>62.5</u>	<u>74.4</u>	<u>3.5</u>	<u>16.1</u>	<u>293.5</u>
As at 31 December 2006	<u>128.1</u>	<u>57.1</u>	<u>45.8</u>	<u>5.7</u>	<u>18.5</u>	<u>255.2</u>

i) All land and buildings are freehold.

ii) Freehold industrial land of £19.7 million (2006 - £16.8 million) has not been depreciated.

Capital commitments

	2007 £m	2006 £m
Contracted but not provided for in the financial statements	<u>33.2</u>	<u>30.7</u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

COMPANY

	Land & buildings £m	Plant & machinery £m	Fixtures, fittings & equipment £m	Assets in course of construction £m	Total £m
Cost					
As at 1 January 2007	13.9	4.1	3.9	-	21.9
Additions	-	0.2	-	4.0	4.2
As at 31 December 2007	<u>13.9</u>	<u>4.3</u>	<u>3.9</u>	<u>4.0</u>	<u>26.1</u>
Depreciation					
As at 1 January 2007	1.5	2.3	2.5	-	6.3
Charge for the year	0.2	0.4	0.4	-	1.0
As at 31 December 2007	<u>1.7</u>	<u>2.7</u>	<u>2.9</u>	<u>-</u>	<u>7.3</u>
Net book value					
As at 31 December 2007	<u>12.2</u>	<u>1.6</u>	<u>1.0</u>	<u>4.0</u>	<u>18.8</u>
As at 31 December 2006	<u>12.4</u>	<u>1.8</u>	<u>1.4</u>	<u>-</u>	<u>15.6</u>

i) All land and buildings are freehold.

ii) Freehold industrial land of £2.0 million (2006 - £2.0 million) has not been depreciated.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

14 INVESTMENTS HELD AS FIXED ASSETS

GROUP

	Associated undertaking £m	Group shares £m	Listed non- group shares £m	Total £m
Cost				
As at 1 January 2007	-	0.2	-	0.2
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31 December 2007	-	0.2	-	0.2
Provision				
As at 1 January 2007	-	0.2	-	0.2
Charge for the year	-	-	-	-
Currency adjustments	-	-	-	-
As at 31 December 2007	-	0.2	-	0.2
Net book value				
As at 31 December 2007	-	-	-	-
As at 31 December 2006	-	-	-	-

Group shares:

Group shares represents the group's shareholding in a non-consolidated subsidiary undertaking, North Georgia Construction LLC.

Associated undertaking:

At 31 December 2007, the group holds the following investment in an associated undertaking. The equity holding is 25,000 Ordinary shares of £1 each, paid at par for cash.

	Equity held	Principal Business	Country of Incorporation
JCB Finance Limited	25%	Finance company	UK

The results of the associated company have not been equity accounted this year, nor in previous years, as the directors do not consider them to be material. Income is therefore taken in the year that it arises.

The group's share of the profits for the year attributable to this company was:

	2007 £m	2006 £m
Before tax	1.4	1.1
After tax	1.0	0.8
The group's share of net assets at 31 December 2007	10.0	9.1

JCB Finance Limited prepares its financial statements annually for the years ended 30 September.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

COMPANY

	2007
	£m
Group shares	79.9
Group loans	5.5
	<u>85.4</u>

Additional information is as follows:

	Group shares £m
Cost	
As at 1 January 2007 and 31 December 2007	<u>80.4</u>

Provision	
As at 1 January 2007 and 31 December 2007	<u>0.5</u>

Net book value	
As at 31 December 2007	<u>79.9</u>
As at 31 December 2006	<u>79.9</u>

	Group loans £m
As at 1 January 2007	4.9
Additions	0.2
Repayments	-
Currency adjustments	0.4
As at 31 December 2007	<u>5.5</u>

JCB SERVICE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Group undertakings

At 31 December 2007 the company, 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 Limited	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%	Equipment manufacturer	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 Limited	100%	Equipment manufacturer and sales	UK
JCB Heavy Products Limited	100%	Equipment manufacturer and sales	UK
JCB Management Services*	100%	Management services	UK
JCB Farms Limited*	100%	Farming	UK
Wootton Organic Wholesale Limited*	100%	Abattoir & meat wholesaler	UK
JCB Backhoe Loaders Limited	100%	Property investment company	UK
JCB Accounting and Systems Limited	100%	Property investment company	UK
JCB Parts Limited	100%	Property investment company	UK
JCB Remarketing Limited	100%	Equipment sales	UK
JCB Defence Products Limited	100%	Sales and marketing	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 SAS	100%	Finance marketing	France
JCB Ile de France SNC	100%	Equipment dealer	France
JCB SAS	100%	Equipment distributor	France
JCB Deutschland GmbH	100%	Equipment distributor	Germany
JCB Vertrieb und Service GmbH	100%	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
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
JCB Vibromax Inc	100%	Sales and marketing	USA
North Georgia Construction LLC*	51%	Equipment distributor	USA

The companies marked with an asterisk (*) 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 2007

15 STOCKS AND WORK IN PROGRESS

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Raw materials	71.3	49.3	-	-
Work in progress	9.8	8.5	-	-
Finished goods	67.3	59.5	-	-
Parts for resale	59.2	49.4	36.7	32.7
	<u>207.6</u>	<u>166.7</u>	<u>36.7</u>	<u>32.7</u>

16 DEBTORS

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Trade debtors	84.1	49.8	-	-
Bills receivable	2.7	3.2	-	-
Amounts owed by fellow subsidiaries	-	-	-	-
Amounts owed by subsidiary undertakings	3.9	2.8	43.3	39.8
Amounts owed by associated undertakings	5.3	5.3	0.2	-
Amounts owed by related parties outside the JCB Service group	75.0	48.9	2.7	1.2
Corporation tax	1.1	7.8	-	3.9
Taxation and social security	33.5	27.7	2.7	2.5
Other debtors	7.0	7.5	0.3	0.4
Prepayments and accrued income	28.7	16.3	0.4	0.2
	<u>241.3</u>	<u>169.3</u>	<u>49.6</u>	<u>48.0</u>

Trade debtors are stated net of amounts discounted without recourse of £395.8 million (2006 - £287.1 million) (Group), and £19.5 million (2006 - £15.7 million) (Company).

Amounts owed by associated undertakings include a loan of £5.0 million (2006 - £5.0 million), with no fixed repayment date.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

17 CURRENT ASSET INVESTMENTS

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Shares in group undertakings	0.1	0.1	0.1	0.1
Listed shares	6.5	104.7	-	-
Investment properties	16.4	15.7	-	-
Unlisted shares	-	-	-	-
	<u>23.0</u>	<u>120.5</u>	<u>0.1</u>	<u>0.1</u>

i) Group and company investments in shares and loans to 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
Lyomat SA	100%	Equipment dealer	France
Rayner JCB Limited	100%	Non-trading	UK

These investments (other than the loans) are in Ordinary shares.

ii) Listed investments are stated at the lower of cost and market value, except those held by J C Bamford Investments, the group's investment trading company, which are stated at market value. The cost of these investments was £7.9 million (2006 - £36.8 million) and their market value at 31 December 2007 was £6.5 million (2006 - £104.7 million). Revaluation losses of £1.0 million (2006 - £ 46.3 million gain) below/over cost have been taken to the profit and loss account.

iii) In the opinion of the directors, the carrying value of investment properties is similar to the open market value.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Bank loans and overdrafts	5.1	0.4	-	-
Other loans	-	-	-	-
Trade creditors	248.0	192.8	17.9	17.7
Bills of exchange payable	0.4	0.2	-	-
Amounts owed to fellow subsidiaries	1.4	2.0	1.5	2.0
Amounts owed to subsidiary undertakings	3.9	4.4	16.5	9.5
Amounts owed to associated undertakings	-	-	-	-
Amounts owed to other related parties outside the JCB Service group	9.5	18.0	1.0	0.3
Corporation tax	17.8	1.8	6.2	-
Taxation and social security	16.1	11.4	0.4	0.4
Pension costs	3.9	1.1	-	-
Other creditors	66.8	42.5	4.3	5.4
Accruals and deferred income	69.3	44.5	2.5	1.6
Deferred income - government grants	0.3	0.2	-	-
	442.5	319.3	50.3	36.9

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Bank loans and overdrafts	20.1	20.4	20.1	20.4
Other creditors	0.9	1.0	-	-
Deferred income - government grants	3.5	3.7	-	-
	24.5	25.1	20.1	20.4

Included in bank loans and overdrafts, Group and Company, is a loan of £20.1 million (2006 - £20.4 million), which can be repaid at the company's option either in full, or in part, at any time before 18 April 2010. An interest rate of 5.91% is payable on the loan from 18 April 2007 to 17 April 2008.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

20 PROVISIONS FOR LIABILITIES

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Deferred tax provision	4.5	28.5	0.9	1.0
Other provision	36.4	29.2	8.7	7.3
	<u>40.9</u>	<u>57.7</u>	<u>9.6</u>	<u>8.3</u>

DEFERRED TAX

The movement in the deferred tax provision during the year was:

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
As at 1 January 2007	28.5	10.6	1.0	1.1
Increase/(Decrease) in provision	(20.9)	18.2	(0.1)	(0.1)
Transfer to FRS 17 pension liability	(2.8)	(1.3)	-	-
Currency adjustments	(0.3)	1.0	-	-
As at 31 December 2007	<u>4.5</u>	<u>28.5</u>	<u>0.9</u>	<u>1.0</u>

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Excess of taxation allowances over depreciation on fixed assets	9.7	15.7	0.9	1.0
Tax losses available	(1.0)	(1.6)	-	-
Other timing differences	(4.2)	14.4	-	-
	<u>4.5</u>	<u>28.5</u>	<u>0.9</u>	<u>1.0</u>

OTHER PROVISION

Warranty provision:

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
As at 1 January 2007	29.2	27.1	7.3	5.5
Additional provisions made in the year	39.7	26.2	9.8	5.6
Amounts used	(32.5)	(24.1)	(8.4)	(3.8)
As at 31 December 2007	<u>36.4</u>	<u>29.2</u>	<u>8.7</u>	<u>7.3</u>

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 16) is an amount totalling £4.4 million (2006 - £4.5 million) (Group), and £0.3 million (2006 - £0.2 million) (Company) representing amounts recoverable from suppliers.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

21 PENSION SCHEMES

Defined benefit schemes with net liabilities comprise:

	2007 £m	2006 £m
UK	13.6	27.4
Overseas	3.5	-
	17.1	27.4

UK

In the UK, pension arrangements are principally provided by two defined benefit schemes, J C Bamford Lifeplan and J C Bamford Excavators Limited Senior Directors and Executives Retirement Benefit Scheme.

The most recent formal actuarial valuations were carried out as at 6 April 2007 and 31 December 2006 (both updated to 31 December 2007).

Both valuations were carried out by an independent, qualified actuary. The major assumptions used by the actuary were:

J C Bamford Lifeplan:

	2007	2006	2005	2004
Rate of increase in salaries	4.65%	4.15%	4.15%	4.75%
Rate of increase in pensions in payment and deferred pensions	3.25%	2.80%	2.65%	2.75%
Discount rate applied to scheme liabilities	5.90%	5.10%	4.75%	5.30%
Inflation assumptions	3.35%	2.85%	2.65%	2.75%

J C Bamford Excavators Limited Senior Directors and Executives Retirement Benefits Scheme:

	2007	2006	2005	2004
Rate of increase in salaries	5.85%	5.40%	5.15%	5.25%
Rate of increase in pensions in payment and deferred pensions	3.35%	2.90%	2.65%	2.75%
Discount rate applied to scheme liabilities	5.90%	5.10%	4.75%	5.30%
Inflation assumptions	3.35%	2.85%	2.65%	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The combined assets of the schemes as at 31 December 2007 and the expected rates of return (net of administration and investment expenses, taken at 0.3% p.a.) were:

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Value at 2007 £m	Value at 2006 £m	Value at 2005 £m
Equities	245.4	242.9	210.2
Property	29.3	17.9	12.0
UK fixed interest	73.9	59.8	45.3
Corporate fixed interest	50.4	43.5	36.2
Overseas fixed interest	-	-	-
Index linked gilts	11.6	8.1	4.4
Other	7.0	2.5	13.5
Total market value of assets	417.6	374.7	321.6
Actuarial values of scheme liabilities	(435.6)	(413.9)	(402.8)
Other net assets	1.1	-	-
Deficit in the schemes - Pension liability	(16.9)	(39.2)	(81.2)
Effect of surplus cap	(2.1)	-	-
Related deferred tax liability	5.4	11.8	24.3
Net pension liability	(13.6)	(27.4)	(56.9)

	Long term rate of return 2007	Long term rate of return 2006	Long term rate of return 2005
Equities	6.80%	6.80%	6.40%
Property	6.80%	6.80%	6.40%
UK fixed interest	4.30%	4.30%	3.90%
Corporate fixed interest	5.60%	4.80%	4.40%
Overseas fixed interest	5.60%	4.80%	4.40%
Index linked gilts	4.30%	4.30%	3.90%
Other	3.60%	3.60%	3.20%

Movement in deficit during the year:

	2007 £m	2006 £m
Deficit at 1 January	(39.2)	(81.2)
Current service costs	(12.1)	(13.5)
Contributions	20.3	19.0
Past service cost	-	-
Net return	1.8	(1.0)
Actuarial gain	10.3	37.5
Deficit in the schemes at the end of the year	(18.9)	(39.2)

Analysis of pension costs charged in arriving at operating profit:

	2007 £m	2006 £m
Service cost	(12.1)	(13.5)
Past service cost	-	-
Net operating return	(12.1)	(13.5)

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Analysis of amounts included in other finance income/costs:

	2007 £m	2006 £m
Expected return on pension scheme assets	23.2	18.4
Interest on pension scheme liabilities	(21.4)	(19.4)
Net finance return	<u>1.8</u>	<u>(1.0)</u>

Analysis of amount recognised in statement of total recognised gains and losses:

	2007 £m	2006 £m
Actual return less expected return on scheme assets	2.7	17.8
Experience gains and losses arising on scheme liabilities	(2.5)	-
Changes in assumptions	12.2	19.7
Actuarial gain recognised in statement of total recognised gains and losses	<u>12.4</u>	<u>37.5</u>
Adjustment due to surplus cap	(2.1)	-
Net gain recognised	<u>10.3</u>	<u>37.5</u>

History of experience gains and losses

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Difference between the expected and annual return on scheme assets:					
- Amount	2.7	17.8	34.1	9.8	23.5
- Percentage of year end scheme assets	1.00%	4.80%	10.60%	3.90%	10.80%
Experience gains and losses on scheme liabilities					
- Amount	(2.5)	-	(2.7)	9.2	13.0
- Percentage of year end present value of scheme liabilities	2.40%	0.00%	(0.7)%	2.70%	4.20%
Total amount recognised in statement of total recognised gains and losses:					
- Amount	10.3	37.5	4.2	0.7	11.8
- Percentage of year end present value of scheme liabilities	2.55%	9.00%	1.00%	0.20%	3.80%

The contributions for the principal scheme, JC Bamford Lifeplan, were paid at the rate of 12.5% (employers) plus £5 million per annum, and 7.5% (employees), of pensionable salaries.

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.

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007 using a methodology consistent with FRS 17. These schemes are being recognised for the first time. Of the provision at 31 December 2007, £3.2 million had previously been provided in creditors. The remaining £1.2 million (net of deferred tax) has been recognised as an actuarial loss in the Statement of Total Recognised Gains and Losses.

The main assumptions used by the actuary were:

2007

Rate of increase in salaries	3 - 10%
Rate of increase in pensions	2 - 5%
Discount rate applied to scheme liabilities	5.5 - 8%
Rate of return on assets	4.00%

The combined assets of the schemes as at 31 December 2007 were:

2007

£m

Market value of assets	1.4
Actuarial value of scheme liabilities	(6.4)
Deficit in schemes	(5.0)
Related deferred tax liability	1.5
	<u>(3.5)</u>

Other overseas pension costs relate to defined contribution arrangements and are charged to the profit and loss account as incurred. The pension charge for these schemes was £1.3 million (2006 - £1.6 million).

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

22 SHARE CAPITAL

	2007 £	2006 £
Authorised		
60,886 Ordinary shares of £1 each	<u>60,886</u>	<u>60,886</u>
Allotted, called up and fully paid		
48,710 Ordinary shares of £1 each	<u>48,710</u>	<u>48,710</u>

23 CONTINGENT LIABILITIES

GROUP

Various companies within the group have a contingent liability in respect of guarantees and indemnities given by Barclays Bank PLC on their behalf. The group's liability in respect of these at 31 December 2007 was £13.7 million (2006 - £12.4 million).

COMPANY

The company has a contingent liability in relation to guarantees and indemnities given by Barclays Bank PLC on its behalf. The company's liability in respect of these at 31 December 2007 was £8.0 million (2006 - £8.0 million).

24 RESERVES

GROUP

	Share premium reserve £m	Capital redemption reserve £m	Capital reserve £m	Other reserves £m	Profit & loss reserve £m	Total £m
Balance at 1 January 2007	31.7	-	33.5	5.3	388.1	458.6
Transfer from profit and loss account for the year	-	-	-	-	120.1	120.1
Transfer to/(from) other reserves	-	-	-	0.5	(0.5)	-
Dividend paid	-	-	-	-	(33.0)	(33.0)
Actuarial gain net of deferred tax	-	-	-	-	6.2	6.2
Foreign currency translation differences	-	-	-	-	14.5	14.5
Balance at 31 December 2007	<u>31.7</u>	<u>-</u>	<u>33.5</u>	<u>5.8</u>	<u>495.4</u>	<u>566.4</u>

COMPANY

	Share premium reserve £m	Other reserves £m	Profit & loss reserve £m	Total £m
Balance at 1 January 2007	31.7	-	258.7	290.4
Transfer from profit and loss account for the year	-	-	66.5	66.5
Dividend paid	-	-	(33.0)	(33.0)
Balance at 31 December 2007	<u>31.7</u>	<u>-</u>	<u>292.2</u>	<u>323.9</u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

25 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007 £m	2006 £m
Profit attributable to members of the company	120.1	95.7
Dividend paid	(33.0)	(45.5)
Currency adjustments	14.5	(7.4)
Minority interests	-	(1.2)
Actuarial gain net of deferred tax	6.2	26.3
Net increase in shareholders' funds	<u>107.8</u>	<u>67.9</u>
Opening shareholders' funds	458.6	390.7
Closing shareholders' funds	<u>566.4</u>	<u>458.6</u>

26 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2007 £m	2006 £m
Operating profit	163.1	105.2
Depreciation	25.1	22.6
Amortisation of goodwill	2.1	1.6
Profit on disposal of fixed assets	(2.7)	(0.6)
Excess of pension contribution over cost	(9.0)	(4.5)
FRS 17 pension provision in overseas companies	2.5	-
Increase in stocks	(40.9)	(17.9)
Increase in debtors	(78.2)	(25.2)
Increase in creditors (including warranty provision)	105.7	39.3
Currency translation differences	9.4	0.2
Release of government grants	(0.1)	(0.9)
Net cash inflow from operating activities	<u>177.0</u>	<u>119.8</u>

27 ANALYSIS OF CASH FLOWS

	2007 £m	2006 £m
Returns on investment and servicing of finance		
Interest paid	(16.7)	(28.3)
Interest received	16.0	9.2
	<u>(0.7)</u>	<u>(19.1)</u>
Taxation		
Taxation paid	(51.0)	(35.2)
	<u>(51.0)</u>	<u>(35.2)</u>

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

28 ANALYSIS OF NET FUNDS

	At start of year £m	Cash flow £m	Other non- cash changes £m	Currency translation differences £m	At end of year £m
Cash at bank and in hand	140.9	148.8	-	2.9	292.6
Bank overdraft	(0.4)	(4.4)	-	(0.3)	(5.1)
Net cash at bank and in hand	140.5	144.4	-	2.6	287.5
Debt due within one year	-	-	-	-	-
Debt due after one year	(20.4)	-	-	0.3	(20.1)
Change in debt	(20.4)	-	-	0.3	(20.1)
Current asset listed investments	104.7	(97.2)	(1.0)	-	6.5
Net funds	224.8	47.2	(1.0)	2.9	273.9

29 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption allowed under FRS 8, available to 90% and above 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 group or investees of the group qualifying as related parties.

Non-consolidated subsidiaries

The group owns a controlling interest in the share capital of Lyomat SA, a dealership to whom the group sells machines and parts. The total value of these sales was £24.3 million (2006 - £22.7 million), on which £12.7 million was owed to the group at 31 December 2007 (2006 - £9.5 million).

The group owns a controlling interest in the share capital of North Georgia Construction LLC, a dealership to whom the group sells machines and parts. The total value of these sales was £1.5 million (2006 - £2.6 million), on which £3.8 million was owed to the group at 31 December 2007 (2006 - £2.7 million).

The group owns 100% of the share capital of JCB Management Services, a management services company, from whom it purchases management services. The total value of these purchases was £Nil million (2006 - £4.8 million). £Nil million was owed by the group at 31 December 2007 (2006 - £0.7 million).

The group has made a loan to JCB Farms Limited, an unconsolidated subsidiary, of £1.9 million (2006 - £1.9 million) against which full provision has been made in prior years. There is a further £12.9 million (2006 - £11.0 million) that has been provided against other debts due from JCB Farms Limited and its subsidiaries in respect of the liability of certain group companies under their mass account banking arrangements for the overdraft of JCB Farms Limited.

JCB SERVICE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Other related parties

The group has supplied machine components and parts to JCB Compact Products Limited, a company in which Sir Anthony Bamford and his family are the shareholders. The total value of these sales during the year was £31.9 million (2006 - £25.7 million). JCB Sales Limited acts as agent and distributor for JCB Compact Products Limited. The group received commission of £6.6 million (2006 - £6.1 million) for this service. JCB Compact Products Limited supplies machines to the group, and the total value of these purchases during the year was £112.0 million (2006 - £106.5 million). The net amount owed by the group to JCB Compact Products Limited at 31 December 2007 was £4.0 million (2006 - £3.8 million).

The group subcontracts some of its research and development projects, and management services, to JCB Research, a company in which Sir Anthony Bamford 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 £64.0 million (2006 - £36.7 million). The net amount owed by the group to JCB Research at 31 December 2007 was £9.5 million (2006 - £12.1 million).

The group has purchased machines and parts from JCB India Manufacturing Limited and JCB Construction Equipment (Shanghai) Limited and sold machines and parts to JCB India Manufacturing Limited and JCB Construction Equipment (Shanghai) Limited company's ultimately controlled by Bamford family interests. The total value of these transactions were purchases of £66.2 million (2006 - £6.7 million) and sales of £6.2 million (2006 - £4.2 million). The group has also advanced further monies of £20.2 million, £2.2 million and £0.3 million by way of loans to JCB India Manufacturing Limited, JCB Construction Equipment (Shanghai) Limited and JCB Hong Kong Limited, respectively, on which no interest has been charged. The net amount owed to the group at 31 December 2007 was JCB India Manufacturing Limited £57.3 million (2006 - £35.4 million), JCB Construction Equipment (Shanghai) Limited £8.7 million (2006 - £3.4 million) and JCB Hong Kong Limited £4.3 million (2006 - £4.0 million).

The group also transacts business with JCB World Brands Limited, a company in which Lady Bamford and her family are the shareholders. The group purchased branded products and merchandise from JCB World Brands Limited, the total value of which was £0.1 million (2006 - £0.1 million). The group also advanced monies to JCB World Brands Limited on which it charged interest of £0.1 million (2006 - £0.2 million) and the group paid £1.3 million (2006 - £1.3 million) as a promotional services fee to JCB World Brands Limited. The net amount owed to the group by JCB World Brands Limited at 31 December 2007 was £0.4 million (2006 - £3.7 million).

All transactions with related parties are carried out at arms length on commercial terms.

30 FOREIGN CURRENCY

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 2007 was £144.6 million (2006 - £136.7 million). Potential unrecognised losses on these contracts at 31 December 2007, expected to be recognised during the next financial year, amount to £5.3 million (2006 - £3.9 million gain).

JCB SERVICE
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

31 POST BALANCE SHEET EVENTS

On 31 March 2008, JCB Service acquired JCB Compact Products Limited from Sir Anthony Bamford and his family. The gross value of the company was £250.0 million being £207.0 million enterprise value and £43.0 million of loans due to JCB Compact Products Limited by its subsidiary, Editallied Limited. Borrowings of £9.3 million left net consideration at £240.7 million. The acquisition excluded Editallied Limited. Sir Anthony Bamford and his family funded Editallied Limited to repay the £43.0 million of loans due to JCB Compact Products Limited, resulting in a net cash receipt by Sir Anthony Bamford and his family of £197.7 million. The company has agreed to sell and Sir Anthony Bamford and his family have agreed to buy back the micro products division of JCB Compact Products Limited. Additionally Sir Anthony Bamford and his family retain 'B' and 'C' shares in JCB Compact Products Limited giving them the right to proceeds from any future repayment of its loan to JCB World Brands Limited.

32 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 accounts of JCB Service and is ultimately controlled by Bamford family interests.