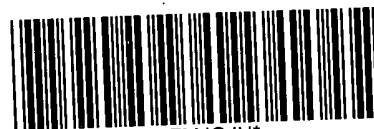


JCB Transmissions

Directors' Report and Financial Statements  
for the year ended 31 December 2015

Registered number 01832206

FRIDAY



\*A5FMJOJU\*

A31

16/09/2016

#154

COMPANIES HOUSE

# **JCB Transmissions**

## **Contents**

Directors and advisors .....	1
Strategic report for the year ended 31 December 2015 .....	2
Directors' report for the year ended 31 December 2015 .....	3
Independent auditors' report to the members of JCB Transmissions .....	5
Profit and loss account for the year ended 31 December 2015.....	7
Balance sheet as at 31 December 2015.....	8
Statement of changes in equity for the year ended 31 December 2015.....	9
Notes to the financial statements for the year ended 31 December 2015 .....	10

# **JCB Transmissions**

## **Directors and advisors**

### **Directors**

J C E Bamford  
G A Macdonald  
M W Turner  
R C Owen

### **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**

01832206

# **JCB Transmissions**

## **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 Transmissions is the manufacture of axles, transmissions and gearboxes for the JCB Group and other equipment manufacturers.

### **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. The company's turnover has suffered because of these market conditions with turnover lower than that of the prior year (2015: £137.6m; 2014: £163.2m). Prudent cost management has however provided an improved margin with operating profit decreasing only slightly from £23.5m in 2014 to £22.8m in 2015. Cash at the end of 2015 was £31.3m (2014: £12.1m) and the balance sheet remains strong, with net assets of £50.3m at the year end (2014: £31.2m).

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 Transmissions is the cyclical nature of the industry as a whole which, in broad terms, tracks the global economic cycle. To manage this risk, JCB Transmissions 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 Transmissions' 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 Transmissions 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 Transmissions 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.

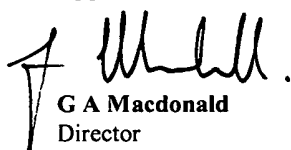
#### **Exchange rate risk**

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 Transmissions 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 Transmissions**

## **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 approved and paid an interim dividend of £nil during the year (2014: £19.0m). The directors do not recommend the payment of a final dividend.

### **Research and development**

The company continues to invest in product research and development with expenditure during the year of £3.0 million (2014: £3.3 million).

### **Statutory Records**

The company is incorporated in England and its company registration number is 01832206.

### **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)  
R C Owen

### **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 Transmissions**

### **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:

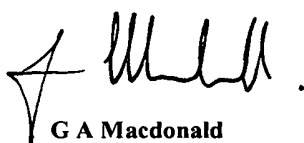
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the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

## **Independent auditors' report to the members of JCB Transmissions**

### **Report on the financial statements**

---

#### **Our opinion**

In our opinion, JCB Transmissions'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 Transmissions**

## **Independent auditors' report to the members of JCB Transmissions (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

24 June 2016

## JCB Transmissions

### Profit and loss account for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
<b>Turnover</b>	5	<b>137,595</b>	163,150
Cost of sales		(108,415)	(133,268)
<b>Gross profit</b>		<b>29,180</b>	29,882
Distribution costs		(1,092)	(1,199)
Administrative expenses		(5,270)	(5,165)
<b>Operating profit</b>	6	<b>22,818</b>	23,518
Interest receivable and similar income	9	30	31
Interest payable and similar charges	10	(13)	(16)
<b>Profit on ordinary activities before taxation</b>		<b>22,835</b>	23,533
Tax on profit on ordinary activities	11	(3,761)	(3,909)
<b>Profit for the financial year</b>		<b>19,074</b>	19,624

All activities are derived from continuing operations.

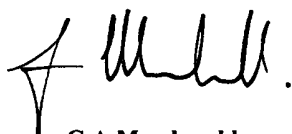
The company has no other comprehensive income for the year and prior year other than the results above and therefore no separate statement of other comprehensive income has been presented.

# JCB Transmissions

## Balance Sheet as at 31 December 2015

	Note	2015 £'000	2014 £'000
<b>Fixed assets</b>			
Tangible assets	13	15,497	15,701
<b>Current assets</b>			
Stocks	15	6,532	6,503
Debtors	16	9,580	12,909
Cash at bank and in hand		31,295	12,062
		47,407	31,474
<b>Creditors – amounts falling due within one year</b>	17	(11,806)	(14,778)
<b>Net current assets</b>		35,601	16,696
<b>Total assets less current liabilities</b>		51,098	32,397
Provisions for liabilities and other charges	19	(837)	(1,210)
<b>Net assets</b>		50,261	31,187
<b>Capital and reserves</b>			
Share capital	20	-	-
Share premium account	21	2,326	2,326
Retained earnings	21	47,935	28,861
<b>Total shareholder's funds</b>		50,261	31,187

The financial statements on pages 7 to 23 were approved by the board of directors on **24 JUNE 2016** and were signed on its behalf by:



**G A Macdonald**  
Director

**Registered Number: 01832206**

## JCB Transmissions

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

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
<b>Balance as at 1 January 2014</b>		-	2,326	28,237	30,563
Profit for the year		-	-	19,624	19,624
<b>Total comprehensive income for the year</b>		-	-	19,624	19,624
Dividends paid	12	-	-	(19,000)	(19,000)
<b>Balance as at 31 December 2014</b>		-	2,326	28,861	31,187
Profit for the year		-	-	19,074	19,074
<b>Total comprehensive income for the year</b>		-	-	19,074	19,074
<b>Balance as at 31 December 2015</b>		-	2,326	47,935	50,261

# **JCB Transmissions**

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

### **1. General information**

The principal activity of JCB Transmissions is the manufacture of axles, transmissions and gearboxes for the JCB Group and other equipment manufacturers.

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 Transmissions 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 23.

### **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 25.

#### **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. Dividend income is recognised when the right to receive payment is established.

## **JCB Transmissions**

### **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 Transmissions**

### **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:

Freehold buildings	1 - 5%
Leasehold land and buildings	Shorter of lease period and 50 years
Plant and machinery	10 - 33.33%
Fixtures, fittings and equipment	6.67 - 33.33%
Motor vehicles	20 - 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 and other charges, 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 Transmissions**

### **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) Investments**

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

##### **(n) 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 Transmissions**

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

#### **3. Summary of significant accounting policies (continued)**

##### **(n) 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 Transmissions**

### **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 13 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 manufactures axles, transmissions and gearboxes for the JCB Group and other equipment manufacturers 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 15 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 16 for the net carrying amount of the debtors and associated impairment provision.

##### **(d) Warranty provision**

The company manufactures axles, transmissions and gearboxes for the JCB Group and other equipment manufacturers 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 19 for the warranty movement and year end provision.

##### **(e) Sales incentive provision**

Under certain conditions the company offers sales incentives in order to maintain its competitiveness in its respective markets. The provision is calculated by considering economic indicators across geographic regions and market segments. Provisions are made with reference to agreed terms with customers or based on historical experience where formal agreements are not in place.

## JCB Transmissions

### 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	123,895	142,612
Europe	687	1,923
North America	8,976	13,585
Middle East	765	645
Far East	93	137
Africa	439	208
Latin America	2,512	2,772
India	228	1,268
	<b>137,595</b>	<b>163,150</b>

#### 6. Operating profit

Operating profit is stated after charging/(crediting):

	2015 £'000	2014 £'000
Hire of machinery and equipment	200	227
Foreign currency gains	(175)	(27)
Depreciation of tangible fixed assets	1,713	1,739
Research and development expenditure	3,008	3,297
Services provided by the company auditor		
Fees payable for the audit	27	27

#### 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	5	6
Administration and service	93	91
Production	303	295
	<b>401</b>	<b>392</b>

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	16,462	17,278
Social security	1,366	1,393
Defined contribution pension cost	1,816	1,764
	<b>19,644</b>	<b>20,435</b>

## JCB Transmissions

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

#### 8. Directors' emoluments

The directors' emoluments for the year were as follows:

	2015 £'000	2014 £'000
Directors' emoluments	205	201
Defined benefit pension cost	3	3
	208	204

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

	2015 Number	2014 Number
Defined benefit	1	1

The aggregate emoluments of the highest paid director (excluding pension contributions) were £195,000 (2014: £191,000).

#### 9. Interest receivable and similar income

	2015 £'000	2014 £'000
Group interest	30	31

#### 10. Interest payable and similar charges

	2015 £'000	2014 £'000
Group discounting charges	13	16

## JCB Transmissions

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

#### 11. Tax on profit on ordinary activities

##### Analysis of charge in the year

	2015 £'000	2014 £'000
<b>Current tax</b>		
UK corporation tax charge on profits of the year	3,627	4,102
Adjustment in respect of prior year tax charge	190	(332)
UK corporation tax	3,817	3,770
<b>Deferred tax</b>		
Origination and reversal of timing differences	(65)	155
Adjustments in respect of prior year	9	(16)
Total deferred tax	(56)	139
Total tax on profit on ordinary activities	3,761	3,909

##### Factors affecting current year tax charge

The tax assessed on the profit on ordinary activities for the year is lower 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	22,835	23,533
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	4,624	5,060
Permanent differences	(1,051)	(803)
Deferred tax rate change adjustment	(11)	-
Adjustment in respect of prior year	199	(348)
Total current tax for the year	3,761	3,909

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.

#### 12. Dividends

	2015 £'000	2014 £'000
Ordinary shares		
Interim paid of £nil (2014: £190,000) per share	-	19,000

The directors approved and paid an interim dividend of £nil during the year (2014: £19.0 million). The directors do not recommend the payment of a final dividend.

## JCB Transmissions

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

#### 13. Tangible fixed assets

	Freehold Land & Buildings	Plant & Machinery	Fixtures, Fittings & Equipment	Motor Vehicles	Assets in Construction	Total
	£'000	£'000	£'000	£'000		£'000
<b>Cost</b>						
As at 1 January 2015	15,352	50,905	2,588	41	10	68,896
Additions	-	87	12	-	1,489	1,588
Disposals	(79)	(7,822)	-	-	-	(7,901)
<b>As at 31 December 2015</b>	<b>15,273</b>	<b>43,170</b>	<b>2,600</b>	<b>41</b>	<b>1,499</b>	<b>62,583</b>
<b>Depreciation</b>						
As at 1 January 2015	5,833	44,778	2,543	41	-	53,195
Charge for the year	280	1,421	12	-	-	1,713
Disposals	-	(7,822)	-	-	-	(7,822)
<b>As at 31 December 2015</b>	<b>6,113</b>	<b>38,377</b>	<b>2,555</b>	<b>41</b>	<b>-</b>	<b>47,086</b>
<b>Net book value at 31 December 2015</b>	<b>9,160</b>	<b>4,793</b>	<b>45</b>	<b>-</b>	<b>1,499</b>	<b>15,497</b>
Net book value at 31 December 2014	9,519	6,127	45	-	10	15,701

Freehold land of £1,330,000 (2014: £1,409,000) has not been depreciated.

#### 14. Investments

The company owns the entire issued share capital, being 2 ordinary shares of £1 each, of J C Bamford Investments, an investment trading company with unlimited liability and of JCB Drivetrain Systems Limited, which has not traded since incorporation. The brand name "JCB Drivetrain Systems Limited" (previously "International Transmissions Limited") is used by the company in respect of non-group sales. Both companies are registered in England.

#### 15. Stocks and work in progress

	2015 £'000	2014 £'000
Raw materials	5,875	5,727
Work in progress	286	429
Finished goods	371	347
	<b>6,532</b>	<b>6,503</b>

During the year stock recognised as an expense in cost of sales was £80,349,000 (2014: £103,017,000).

Stocks are stated after provisions for impairment of £1,492,000 (2014: £1,265,000).

## JCB Transmissions

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

#### 16. Debtors

	2015 £'000	2014 £'000
Trade debtors	868	1,083
Amounts owed by group undertakings	7,856	10,828
Amounts owed by other related parties outside the JCB Service group	7	1
Deferred tax	164	108
Taxation and social security	188	502
Other debtors	423	319
Prepayments and accrued income	74	68
	<b>9,580</b>	<b>12,909</b>

Trade debtors are stated net of amounts discounted without recourse of £1,460,000 (2014: £616,000).

An impairment loss of £nil (2014: £nil) was recognised against trade debtors.

#### Deferred tax

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

	2015 £'000	2014 £'000
As at 1 January	108	247
Deferred tax credited/(charged) to the profit and loss account	56	(139)
As at 31 December	<b>164</b>	<b>108</b>

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

	2015 £'000	2014 £'000
Difference between taxation allowances over depreciation on fixed assets	164	108

The net increase of deferred tax expected to occur next year is £91,000 relating to the increase of timing differences on tangible fixed assets.

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

	2015 £'000	2014 £'000
Trade creditors	6,511	8,043
Amounts owed to group undertakings	720	860
Amounts owed to other related parties outside JCB Service group	354	973
Corporation tax	1,460	1,612
Taxation and social security	352	339
Other creditors	507	812
Government grants	-	36
Accruals and deferred income	1,902	2,103
	<b>11,806</b>	<b>14,778</b>

## JCB Transmissions

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

#### 18. 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.

#### 19. Provisions for liabilities and other charges

##### Warranty provision

	2015 £'000	2014 £'000
As at 1 January	1,210	1,052
Charged to the profit and loss account	1,326	877
Amounts utilised during the year	(1,699)	(719)
As at 31 December	837	1,210

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.

#### 20. Share capital

	2015 £	2014 £
<b>Allotted, called up and fully paid up</b>		
100 Ordinary shares of £1 each (2014: 100 Ordinary shares of £1 each)	100	100

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.

#### 21. Reserves

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

Share premium account – includes premiums received on issue of share capital. Transaction costs associated with the issuing of shares are deducted from share premium.

Retained earnings – includes all current and prior period retained profits and losses.

#### 22. 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.

## JCB Transmissions

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

#### 23. 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 DL is the sole shareholder. The total value of services purchased by the company during the year was £45,000 (2014: £146,000). The net amount owed to the company by JCB Research at 31 December 2014 was £7,000 (2014: £1,000).

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 £21,386,000 (2014: £22,208,000). The net amount due to JCB Hong Kong Limited at 31 December 2015 was £354,000 (2014: £973,000).

#### 24. Ultimate controlling party

The company is a wholly-owned subsidiary of JCB Service, an unlimited liability company incorporated in England and Wales. JCB Service 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.

#### 25. Transition to FRS102

This is the first year that the company has presented its results under FRS 102. The last financial statements under 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	2014
	£'000	£'000
Profit for the financial year		
<b>UK GAAP – As previously reported</b>		19,653
Recognition of grants under the performance model (i)	(36)	
<b>Total adjustment to profit before tax for the financial year</b>		(36)
Deferred tax impact of adjustments (ii)		
- Recognition of grants under the performance model	7	
<b>Total adjustment to tax expense</b>		7
<b>Total adjustment to profit for the financial year</b>		(29)
<b>FRS 102</b>		19,624

## JCB Transmissions

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

#### 25. Transition to FRS102 (continued)

		1 January 2014 £'000	31 December 2014 £'000
Total equity			
<b>UK GAAP – As previously reported</b>		29,505	30,158
- Recognition of grants under the performance model	(i)	1,278	1,242
Deferred tax impact of adjustments	(ii)		
- Recognition of grants under the performance model		(220)	(213)
<b>FRS 102</b>		30,563	31,187

#### (i) Recognition of grants under the performance model

Under previous UK GAAP government grants were measured using the accruals model. FRS 102 permits the use of the performance model as an alternative to the accruals model which is still permitted. Under the performance model the entirety of the grant can be recognised as income without deferment providing all conditions have been satisfied. As a result, deferred grant income of £1.3m has been released to opening equity whilst £36,000 of grant income previously recognised in the profit and loss account during 2014 has been reversed.

#### (ii) Deferred taxation - The company has accounted for deferred taxation on transition as follows:

Deferred taxation has been adjusted on transition to FRS102 in respect of the deferred grant income which has been released to opening equity. The release of the grant has been matched by a release of the associated deferred tax asset of £220,000 resulting in a reduction in equity. The £36,000 reversal in 2014 has also attracted a current year deferred tax credit in the profit and loss account of £7,200.

#### Other Adjustments

Other Adjustments arising on transition to FRS 102 In addition to the transition adjustments identified above which affect profit for the financial year 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.