


COMPANY REGISTRATION NUMBER 2058784

CUMMINS POWER GENERATION (UK) LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2012

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	A23	*A2CAN1PE* 10/07/2013 COMPANIES HOUSE	#381
	A35	*A2BIGN9U* 28/06/2013 COMPANIES HOUSE	#3
	A22	*A2AXXDCB* 20/06/2013 COMPANIES HOUSE	#18

CUMMINS POWER GENERATION (UK) LIMITED

ANNUAL REPORT

YEAR ENDED 31 DECEMBER 2012

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CUMMINS POWER GENERATION (UK) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

A Whitehead
L L Satterthwaite
R Eyres
J M Perkins

COMPANY SECRETARY

J Berenzweig

REGISTERED OFFICE

49-51 Gresham Road
Staines
Middlesex
TW18 2BD

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

CUMMINS POWER GENERATION (UK) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2012

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2012

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company continued to be that of the sale of AC generating sets into the marine and commercial vehicle sectors

In 2012 turnover was £11.9m which was a 5% decrease over the previous year. The business is expected to return to profit in 2013

KEY PERFORMANCE INDICATORS

The directors of Cummins Inc manage the worldwide group's operations on a segmental basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Cummins Power Generation (UK) Limited

FUTURE DEVELOPMENTS

We are optimistic that opportunities for long-term growth and profitability will continue in the future. Future growth is expected by the development of new product ranges and new applications for existing products

PRINCIPAL RISKS AND UNCERTAINTIES

The largest group in which the results of the company are consolidated is Cummins Inc, which is the ultimate controlling party. From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Cummins worldwide group. Some of the principal risks and uncertainties, which may affect future business results, are discussed below

1 Our business is affected by the cyclical nature of the markets we serve

Our financial performance depends, in large part, on varying conditions in the markets and geographies that we serve. Demand in these markets and geographies fluctuates in response to overall economic conditions and is particularly sensitive to changes in interest rate levels. Economic downturns in the markets we serve generally result in reductions in sales and pricing of our products, which could reduce future earnings and cash flow

2 Our products are subject to substantial government regulation

Our products are subject to extensive statutory and regulatory requirements governing emissions and noise, including standards imposed by the regulatory agencies around the world. In some cases, we may be required to develop new products to comply with new regulations, particularly those relating to air emissions. We have made, and will be required to continue to make, significant capital and research expenditures to comply with these regulatory standards

3 Our manufacturing operations are dependent upon third-party suppliers

We obtain materials and manufactured components from third-party suppliers. A significant number of our suppliers are the sole source for a particular supply item, although the majority of these materials and components can be obtained from other suppliers. Any delay in our suppliers' abilities to provide us with necessary materials and components may affect our manufacturing capabilities, or may require us to seek alternative supply sources

4 Our operations are subject to extensive environmental laws and regulations

Our plants and operations are subject to increasingly stringent environmental laws, including laws and regulations governing emissions to air, discharges to water and the generation, handling, storage, transportation, treatment and disposal of waste materials. We believe that we are in compliance in all material respects with these environmental laws and regulations, but we cannot ensure that we will not be adversely impacted by costs of complying with new environmental laws and regulations

RESULTS AND DIVIDENDS

The loss for the year amounted to £550,000 (2011 - profit of £1,917,000). The directors have not recommended a dividend

CUMMINS POWER GENERATION (UK) LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2012

FINANCIAL RISK MANAGEMENT

The company's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk and price risk. The company has in place a risk management programme that seeks to limit adverse effects on its financial performance. The policies set by the directors are implemented by the company's management team.

There is little exposure to interest rate risk and the company does not have any financial liabilities other than short term creditors and amounts owed to group undertakings.

Foreign exchange risk

Financial assets are held in sterling, US dollar and euro denominated currencies and hence there is a foreign currency rate exposure. This exposure is hedged on a general basis through forward exchange contracts, which are managed by its ultimate parent company, Cummins Inc.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Where potential risk has been identified, advanced payment is required. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the management of the company.

Price risk

We are a significant user of steel and many other commodities are required for the manufacture of our products. Therefore increases in the prices of such commodities would potentially increase costs and impact on margins.

We rely on our suppliers to secure component products particularly steel and copper, required for the manufacture of our products. All our engines and alternators are purchased from related parties, many other components are also sourced from related suppliers. Therefore, exposure to commodity price risk is managed by our related suppliers and on a global basis through our ultimate parent company Cummins Inc.

DIRECTORS

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

S Patch
A Whitehead
L L Satterthwaite
R Eyres
J M Perkins

S Patch resigned as a director on 4 February 2013.

A Whitehead was appointed as a director on 4 February 2013.

DIRECTORS' INDEMNITIES

The company's ultimate parent company Cummins Inc, maintains liability insurance for its directors and officers. Cummins Inc has also provided an indemnity for its directors and the company secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006 and was in force during the financial year and also at the date of approval of the financial statements.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

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,

CUMMINS POWER GENERATION (UK) LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2012

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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.

DISCLOSURE OF INFORMATION TO AUDITORS

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

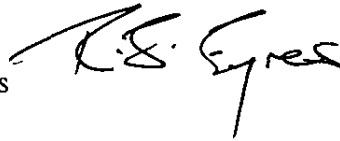
INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed and the annual general meeting

Registered office
49-51 Gresham Road
Staines
Middlesex
TW18 2BD

Signed on behalf of the directors

R EYRES
Director



Approved by the directors on 07/06/13

CUMMINS POWER GENERATION (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CUMMINS POWER GENERATION (UK) LIMITED

YEAR ENDED 31 DECEMBER 2012

We have audited the financial statements of Cummins Power Generation (UK) Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

CUMMINS POWER GENERATION (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CUMMINS POWER GENERATION (UK) LIMITED *(continued)*

YEAR ENDED 31 DECEMBER 2012

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Bill MacLeod

Bill MacLeod (Senior Statutory Auditor)
For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

8 June 2013

CUMMINS POWER GENERATION (UK) LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 31 DECEMBER 2012**

		2012 £000	2011 £000
TURNOVER	Note 2	11,916	12,484
Cost of sales		(12,169)	(9,401)
GROSS (LOSS)/PROFIT		(253)	3,083
Distribution costs		(522)	(741)
Administrative expenses		49	(534)
OPERATING (LOSS)/PROFIT	3	(726)	1,808
Attributable to			
Operating profit before exceptional items		372	1,808
Exceptional items	3	(1,098)	—
		(726)	1,808
Interest receivable and similar income	5	7	13
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(719)	1,821
Tax on (loss)/profit on ordinary activities	6	169	96
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	17	(550)	1,917

All of the activities of the company are classed as continuing

There is no material difference between the (loss)/profit on ordinary activities before taxation and the (loss)/profit for the financial years stated above and their historical cost equivalents

The notes on pages 10 to 20 form part of these financial statements

CUMMINS POWER GENERATION (UK) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£000	£000
(Loss)/profit for the financial year		
attributable to the shareholders	(550)	1,917
Actuarial loss in respect of defined benefit pension scheme (note 12)	(185)	(120)
Deferred tax in respect of defined benefit pension scheme (note 12)	34	24
Total recognised gains and losses relating to the year	<u>(701)</u>	<u>1,821</u>

The notes on pages 10 to 20 form part of these financial statements

CUMMINS POWER GENERATION (UK) LIMITED

BALANCE SHEET

31 DECEMBER 2012

	Note	£000	2012 £000	£000	2011 £000
FIXED ASSETS					
Tangible assets	7		36		41
CURRENT ASSETS					
Stocks	8	4,501		2,914	
Debtors	9	3,242		3,932	
Cash at bank and in hand		5		19	
		7,748		6,865	
CREDITORS Amounts falling due within one year	11	(3,344)		(1,906)	
NET CURRENT ASSETS			4,404		4,959
TOTAL ASSETS LESS CURRENT LIABILITIES			4,440		5,000
NET ASSETS EXCLUDING PENSION LIABILITY			4,440		5,000
Defined benefit pension scheme liability	12		(241)		(100)
NET ASSETS INCLUDING PENSION LIABILITY			4,199		4,900
CAPITAL AND RESERVES					
Called up share capital	16		260		260
Profit and loss account	17		3,939		4,640
TOTAL SHAREHOLDERS' FUNDS	18		4,199		4,900

The financial statements on pages 7 to 20 were approved by the Board of Directors and authorised for issue on

9.7.13, and are signed on their behalf by



R EYRES

Company Registration Number 2058784

The notes on pages 10 to 20 form part of these financial statements

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom

The financial statements have also been prepared on the going concern basis and in accordance with the Companies Act 2006. The principal accounting policies adopted and consistently applied are set out below

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is a wholly owned subsidiary undertaking of Cummins Inc (incorporated in the state of Indiana) which prepares consolidated financial statements that are publicly available

Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold improvements	- Over the length of the lease
Plant and machinery	- 20% straight line
Fixtures and fittings	- 15% and 20% straight line
Computer equipment	- 20% and 30% straight line

Stock

Stock is valued at the lower of cost and net realisable value

Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

Pension costs and other post-retirement benefits

The company is a participating company of a group pension scheme called the Cummins UK Pension Plan. The pension plan has a defined contribution and defined benefit sections

For the defined benefit section, the operating cost of providing pensions and other post retirement benefits, as calculated periodically by independent actuaries, is charged to the company's operating profit and loss in the year that those benefits are earned by employees. The financial return expected on the scheme's assets is recognised in the year in which they arise as part of finance (expense)/income and the effect of the unwinding of the discounted value of the scheme's liabilities is treated as part of finance (expense)/income. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The changes in value of the schemes' assets and liabilities are reported as actuarial gains or losses as they arise in the statement of total recognised gains and losses. The pension scheme's surpluses, to the extent they are considered recoverable, or deficits are recognised in full and presented in the balance sheet net of any related deferred tax

For the defined contribution section, the contributions are charged to the profit and loss account in the accounting year in which they arise

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

1 ACCOUNTING POLICIES *(continued)*

Foreign currency translation

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

2 TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	2012	2011
	£000	£000
United Kingdom	4,192	4,081
Europe	5,860	7,338
Rest of the world	1,864	1,065
	<u>11,916</u>	<u>12,484</u>

3 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging/(crediting)

	2012	2011
	£000	£000
Depreciation of owned fixed assets	9	12
Auditors' remuneration		
- as auditor	15	14
Operating lease costs		
- Plant and machinery	28	28
- Other	55	55
Net profit on foreign currency translation	(42)	(70)
Exceptional item	<u>1,098</u>	<u>-</u>

The exceptional item of £1,098,000 (2011 - £nil) relates to an charge from a fellow group company in 2011 that has been reversed in the current year. The directors do not believe that this adjustment destroys the truth and fairness of the financial statements and therefore have not restated the prior year financial statements.

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

4 PARTICULARS OF EMPLOYEES

The monthly average number of staff employed by the company, including directors, during the financial year amounted to

	2012	2011
	No	No
Administration	3	2
Production and sales	5	5
	<u>8</u>	<u>7</u>

The aggregate payroll costs of the above were

	2012	2011
	£000	£000
Wages and salaries	274	270
Social security costs	30	26
Other pension costs (note 12)	47	40
	<u>351</u>	<u>336</u>

Other pension costs are amounts charged to operating profit and do not include amounts credited to finance income (see note 5) and amounts recognised in the statement of recognised gains and losses

The directors did not receive any emoluments in respect of their services to the company

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2012	2011
	£000	£000
Net finance income in respect of defined benefit pension schemes	<u>7</u>	<u>13</u>

6 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of credit in the year

	£000	2012 £000	£000	2011 £000
Current tax				
Corporation tax		-		-
Adjustments in respect of prior years		-		(93)
Total current tax		-		(93)
Deferred tax				
Origination and reversal of timing differences	(178)		2	
Effect of changed tax rate	<u>9</u>		<u>(5)</u>	
Total deferred tax		(169)		(3)
Tax on (loss)/profit on ordinary activities		<u>(169)</u>		<u>(96)</u>

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

6 TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax credit

The tax assessed on the (loss)/profit on ordinary activities for the year is higher (2011 - lower) than the blended rate of corporation tax in the UK of 24.50% (2011 - 26.50%)

	2012 £000	2011 £000
(Loss)/profit on ordinary activities before taxation	(719)	1,821
(Loss)/profit on ordinary activities by rate of tax	(176)	483
Expenses not deductible for tax purposes	2	3
Fixed asset timing differences	1	1
Adjustments in respect of prior years	-	(93)
Pensions timing differences	(1)	(4)
Group losses not paid for	-	(483)
UK tax not at standard rate	(4)	-
Tax losses carried forward	178	-
Total current tax (note 6(a))	-	(93)

(c) Factors that may affect future tax charges

On 21 March 2012 the Chancellor announced the reduction in the main rate of UK corporation tax from 26 per cent to 24 per cent with effect from 1 April 2012 and a further reduction to 23 per cent with effect from 1 April 2013. These changes became substantively enacted on 26 March 2012 and 3 July 2012 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax asset which has been included in the figures above.

The Chancellor has announced further changes to reduce the main rate of corporation tax to 21 per cent from 1 April 2014 and 20 per cent from 1 April 2015. As this legislation was not substantively enacted by 31 December 2012, the impact of the anticipated rate change is not reflected in the tax provisions reported in these financial statements. It is expected that the impact of these changes will not be material to the company.

7 TANGIBLE ASSETS

	Leasehold improvements £000	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
COST					
At 1 January 2012	53	14	9	13	89
Additions	-	4	-	-	4
At 31 December 2012	53	18	9	13	93
DEPRECIATION					
At 1 January 2012	17	12	6	13	48
Charge for the year	6	1	2	-	9
At 31 December 2012	23	13	8	13	57
NET BOOK VALUE					
At 31 December 2012	30	5	1	-	36
At 31 December 2011	36	2	3	-	41

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

8 STOCKS

	2012	2011
	£000	£000
Finished goods and goods for resale	<u>4,501</u>	<u>2,914</u>

9 DEBTORS

	2012	2011
	£000	£000
Trade debtors	2,068	2,142
Amounts owed by group undertakings	564	1,727
VAT recoverable	430	43
Prepayments and accrued income	14	18
Deferred taxation (note 10)	166	2
	<u>3,242</u>	<u>3,932</u>

10 DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows

	2012	2011
	£000	£000
Included in debtors (note 9)	<u>166</u>	<u>2</u>

The movement in the deferred taxation account during the year was

	2012	2011
	£000	£000
Balance brought forward	2	1
Profit and loss account movement arising during the year	164	1
Balance carried forward	<u>166</u>	<u>2</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2012	2011
	£000	£000
Excess of depreciation over taxation allowances	-	2
Tax losses available	166	-
	<u>166</u>	<u>2</u>

In addition, a deferred tax credit of £3,000 (2011 - £2,000) relating to the defined benefit pension scheme has been recognised within the profit and loss account

11 CREDITORS Amounts falling due within one year

	2012	2011
	£000	£000
Trade creditors	67	26
Amounts owed to group undertakings	3,209	1,793
Accruals and deferred income	68	87
	<u>3,344</u>	<u>1,906</u>

Amounts owed to group undertakings are unsecured and repayable on demand

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

12. PENSIONS AND OTHER POST RETIREMENT BENEFITS

DEFINED BENEFIT SECTION

The company participates in a final salary defined benefit scheme for employees, which is contracted-out of the state scheme and with assets held in a separate trustee-administered fund. Under an informal practice, certain pensions within the Plan are subject to discretionary increases on top of those provided as a Plan entitlement, and these increases are allowed for within the calculation of the scheme liabilities in these financial statements under FRS 17.

The approach of accounting under FRS 17 on a defined benefit basis was first adopted in these financial statements as at 31 December 2008. In previous financial statements, disclosures were prepared on a defined contribution basis, due to the difficulty in attributing liabilities and costs to the different companies participating within the scheme. For the purpose of allocating liabilities and costs to the Company more detailed calculations based on individual liability assessments are now performed, and assets are divided on a pragmatic basis. It should be stressed that the Plan is not operated on a sectionalised basis and these divisions are, therefore, purely notional for reporting purposes under FRS 17. The assets and costs relating to defined contribution benefits within the Plan are not included within these FRS 17 disclosures and are accounted for separately.

During the year to 31 December 2012 the participating companies paid contributions at an average rate of around 20.3% of pensionable pay to the Plan plus member contributions (at an average rate of around 7.7% pa of pensionable pay) for those employees participating in SMAR I pensions (an arrangement whereby the Company pays what would have been the member's contribution in lieu of a corresponding reduction in pay). These contribution rates were based on the actuarial valuation carried out as at 1 January 2009.

The latest actuarial valuation of the Plan for funding purposes was carried out as at 1 January 2012 by an independent professionally qualified actuary using the projected unit method, with a new rate of contributions subsequently coming into force from 2013. The value of the assets at the valuation date represented 91% of the value of members' accrued benefits, after allowing for projected future increases in pensionable remuneration in respect of members in service. In order to eliminate the shortfall the principal company of the Plan has agreed that additional contributions of at least £33 million over the calendar year 2013 will be paid into the Plan and additional contributions of at least £56 million a year from 1 January 2014 to 31 December 2015 will be paid into the Plan by all the employers collectively. This is inclusive of contributions in respect of future benefit accrual and to meet the costs of Pension Protection Fund levies, but exclusive of the contributions in respect of SMAR I pensions payable by the employers on behalf of members and contributions to meet the cost of life assurance premiums.

In addition, Cummins Ltd and Cummins Generator Technologies Limited have made a commitment for Pension Protection Fund purposes that they will meet any contributions not met by the other employers up to the point the Cummins UK Pension Plan would be funded to 105% on the S179 basis.

Pension costs in these financial statements are recognised in accordance with FRS 17, taking into account the amendment to the standard published in December 2006 as set out below.

The Trustee of the Cummins UK Pension Plan entered into a 10-year deferred payment buy-in policy agreement with Legal & General Assurance Society ("LGAS") on 26 July 2012. The policy covers all pensioner and dependent members as at 31 December 2011 for pension payments due from 1 August 2022. A valuation of the policy was completed by LGAS as at 31 December 2012 and independently verified by the Plan's Actuary, Towers Watson. Further calculations have been completed by Towers Watson to provide a valuation consistent with that required under FRS17 for these accounts - the value of which is shown in this section.

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

12 PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Actuarial assumptions

The financial assumptions used to calculate scheme liabilities under FRS 17 are as follows

	2012	2011	2010
	% pa	% pa	% pa
RPI inflation	3.00	3.25	3.50
CPI inflation	2.25	2.35	2.80
Salary increases	4.00	4.25	4.50
Increases to pensions in payment increasing with RPI			
- subject to a 5% maximum each year	2.90	3.00	3.25
- subject to a 3% maximum each year	2.30	2.50	2.80
- subject to a 2.5% maximum each year	N/A	N/A	2.50
Increases to pensions in payment increasing with CPI			
- subject to a 5% maximum each year	2.25	2.35	2.80
- subject to a 3% maximum each year	2.00	2.25	2.80
- subject to a 2.5% maximum each year	1.80	2.15	2.50
Increases to deferred pensions subject to statutory revaluation	2.25	2.35	2.80
Discount rate	4.50	5.00	5.50
Expected return on assets	6.50	6.50	7.00

The mortality assumptions as at 31 December 2012 are based on the SAPS tables, multiplied by 112% (reducing life expectancy) for current pensioners, as projected from 2002 using CMI 2011 Core Projection improvements with a 1.50% per annum long term trend

The mortality rates imply future life expectancies of

	2012	2011
	Years	Years
Longevity at age 65 for current pensioners		
- Men	22	22
- Women	24	24
Longevity at age 65 for future pensioners		
- Men	25	24
- Women	27	27

Scheme assets

The total Plan assets for the purpose of the overall FRS 17 assessment are set out below:

	2012	2011	2010
	%	%	%
Equities	47.9	41.6	57.0
Bonds	16.2	50.0	40.0
Property	6.0	3.5	3.0
Cash and reinsurance	5.9	4.9	-
Buy-in policy	24.0	-	-
Fair value of total Plan assets (£000)	731,405	771,865	696,511

The overall expected return has been derived by looking at the assets held at the balance sheet date and considering expected returns for each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations. The Plan does not hold any direct financial instruments relating to the company or property occupied by it.

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

12 PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

The amounts recognised in the profit and loss account are as follows

	Figures for whole plan		Figures for company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Amounts charged to operating (loss)/profit				
Current service cost	13,845	13,633	25	23
Gains on settlements and curtailments	(1,413)	—	—	—
Total operating charge	<u>12,432</u>	<u>13,633</u>	<u>25</u>	<u>23</u>
Amounts included in other finance income				
Expected return on scheme assets	(49,721)	(48,500)	(66)	(69)
Interest on scheme liabilities	36,578	35,874	59	56
Other finance income	<u>(13,143)</u>	<u>(12,626)</u>	<u>(7)</u>	<u>(13)</u>
Total (credit)/charge to the profit and loss account	<u>(711)</u>	<u>1,007</u>	<u>18</u>	<u>10</u>

Other finance income is included in the profit and loss account within interest receivable and similar income

Analysis of amounts recognised in the statement of total recognised gains and losses

	Figures for whole plan		Figures for company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Expected return less actual return on scheme assets	75,599	7,083	103	20
Expected gains on scheme liabilities	(5,422)	(7,024)	(13)	(13)
Loss on change of assumptions underlying the present value of scheme liabilities	<u>40,276</u>	<u>62,252</u>	<u>95</u>	<u>113</u>
Total loss recognised in the statement of total recognised gains and losses	<u>110,453</u>	<u>62,311</u>	<u>185</u>	<u>120</u>

Cumulative actuarial loss recognised in statement of total recognised gains and losses

	Figures for whole plan		Figures for company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Cumulative amount at start of year	112,586	50,275	383	263
Cumulative amount at end of year	223,039	112,586	568	383

The amounts recognised in the balance sheet are as follows

	Figures for whole plan		Figures for company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Present value of funded obligations	(801,769)	(745,776)	(1,283)	(1,162)
Fair value of scheme assets	<u>731,405</u>	<u>771,865</u>	<u>971</u>	<u>1,028</u>
	<u>(70,364)</u>	<u>26,089</u>	<u>(312)</u>	<u>(134)</u>
Related deferred tax asset	19,734	704	71	34
Net pension (liability)/asset	<u>(50,630)</u>	<u>26,793</u>	<u>(241)</u>	<u>(100)</u>

Of the movement in deferred tax, £34,000 (2011 - £24,000) was recognised as a gain in the statement of total recognised gains and losses and a credit of £3,000 (2011 - £2,000) was recognised in the profit and loss account

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

12 PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

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

	Figures for whole plan		Figures for company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Opening defined benefit obligation	745,776	665,100	1,162	1,021
Current service cost	13,845	13,633	25	23
Gains on curtailments	(1,413)	—	—	—
Interest on scheme liabilities	36,578	35,874	59	56
Actuarial loss	34,854	55,228	82	100
Contributions by scheme participants	548	553	—	—
Benefits paid	(28,419)	(24,612)	(45)	(38)
Closing defined benefit obligation	<u>801,769</u>	<u>745,776</u>	<u>1,283</u>	<u>1,162</u>

Changes in the fair value of scheme assets are as follows

	Figures for whole plan		Figures for company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Opening fair value of scheme assets	771,865	696,511	1,028	994
Expected return on scheme assets	49,721	48,500	66	69
Contributions by employer	13,289	57,996	25	23
Contributions by scheme participants	548	553	—	—
Actuarial loss	(75,599)	(7,083)	(103)	(20)
Benefits paid	(28,419)	(24,612)	(45)	(38)
Closing fair value of scheme assets	<u>731,405</u>	<u>771,865</u>	<u>971</u>	<u>1,028</u>

Amounts for the current and previous four years are as follows

Figures for whole plan	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Defined benefit obligation	(801,769)	(745,776)	(665,100)	(662,400)	(590,850)
Fair value of scheme assets	731,405	771,865	696,511	571,016	511,434
(Deficit)/surplus in the scheme	<u>(70,364)</u>	<u>26,089</u>	<u>31,411</u>	<u>(91,384)</u>	<u>(79,416)</u>
Experience adjustments on scheme liabilities (£000)	34,854	55,228	(23,229)	66,615	(32,522)
Experience adjustments on scheme assets (£000)	<u>(75,599)</u>	<u>(7,083)</u>	<u>34,151</u>	<u>46,228</u>	<u>(146,022)</u>
Figures for company	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Defined benefit obligation	(1,283)	(1,162)	(1,021)	(1,033)	(830)
Fair value of scheme assets	971	1,028	994	890	719
Deficit in the scheme	<u>(312)</u>	<u>(134)</u>	<u>(27)</u>	<u>(143)</u>	<u>(111)</u>
Experience adjustments on scheme liabilities (£000)	82	100	(53)	195	(39)
Experience adjustments on scheme assets (£000)	<u>(103)</u>	<u>(20)</u>	<u>51</u>	<u>153</u>	<u>(197)</u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year for the company was (£37,000) (2011 - £49,000)

DEFINED CONTRIBUTION SECTION

The cost of contributions to the defined contribution section amounts to £22,000 (2011 - £17,000)

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

13 COMMITMENTS UNDER OPERATING LEASES

At 31 December the company had annual commitments under non-cancellable operating leases as set out below

	2012		2011	
	Land and buildings £000	Other Items £000	Land and buildings £000	Other Items £000
Operating leases which expire				
Within 2 to 5 years	-	28	-	28
After more than 5 years	55	-	55	-
	<u>55</u>	<u>28</u>	<u>55</u>	<u>28</u>

14 GUARANTEES

The UK group's bankers have given a total guarantee amounting to £4,180,000 in favour of IIM Revenue & Customs (2011 - £3,960,000) of this £100,000 (2011 - £100,000) relates to the company

The company participates in a cash pooling arrangement operated by its bankers whereby positive and negative cash balances of the company and other members of the Group headed by Cummins Inc are offset against one another. Each company within the cash pool has given a guarantee to the bank to assume joint and several liability for the debts of any participating member. The liability under this guarantee is limited to positive cash balances held by the bank.

15 RELATED PARTY TRANSACTIONS

As a subsidiary undertaking of Cummins Inc the company has taken advantage of the exemption in FRS 8, Related party disclosures, from disclosing transactions with other members of the group headed by Cummins Inc.

There were no other related party transactions in the year (2011 - none)

16 CALLED UP SHARE CAPITAL

Authorised share capital

	2012	2011
	£000	£000
260,516 Ordinary shares of £1 each	<u>261</u>	<u>261</u>

Allotted, called up and fully paid

	2012		2011	
	No	£000	No	£000
260,418 Ordinary shares of £1 each	<u>260,418</u>	<u>260</u>	<u>260,418</u>	<u>260</u>

CUMMINS POWER GENERATION (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

17 PROFIT AND LOSS ACCOUNT

	2012 £000
Balance brought forward	4,640
Loss for the financial year	(550)
Actuarial loss on pension scheme net of deferred tax	(151)
Balance carried forward	<u>3,939</u>

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £000	2011 £000
(Loss)/profit for the financial year	(550)	1,917
Actuarial loss on pension scheme net of deferred tax	(151)	(96)
Net (reduction)/addition to shareholders' funds	(701)	1,821
Opening shareholders' funds	<u>4,900</u>	<u>3,079</u>
Closing shareholders' funds	<u>4,199</u>	<u>4,900</u>

19 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company's ultimate parent company and ultimate controlling party is Cummins Inc, incorporated in the state of Indiana, USA. The smallest and largest group in which the results of the company are consolidated is Cummins Inc, the consolidated financial statements of which are available to the public and may be obtained from the following address:

Executive Director - Investor and Public Relations
Cummins Inc,
(Mail Code 60915)
Box 3005
Columbus
Indiana, 47202-3005
United States of America

The company's immediate parent company is Cummins Power Generation Inc