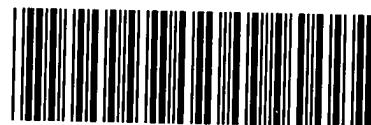


JCB Power Systems Limited
Directors' Report and Financial Statements
for the year ended 31 December 2019

Registered number 04797821

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JCB Power Systems Limited

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JCB Power Systems Limited

Directors and advisors

Directors

G A Macdonald

M W Turner

M D Chiles (Appointed 1 January 2020, resigned 15 April 2020)

A R Whyman (Appointed 1 January 2020)

Company secretary

S E R Ovens

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Hardman Square

Manchester

M3 3EB

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

Rocester

Uttoxeter

Staffs

ST14 5JP

Registered number

04797821

JCB Power Systems Limited

Strategic report for the year ended 31 December 2019

The directors present their strategic report on the company for the year ended 31 December 2019.

Principal activities

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

Review of business and future developments

In 2019 the global construction equipment market grew by 1% compared to 2018 (Source: ISTAT). This growth was impacted by local, regional and global political landscapes, creating a mixture of market expansions and contractions as follows: Russia & CIS +17%, Latin America +10%, Europe +8%, China +6%, North America +4%, Japan & Korea were flat, Middle East & Turkey -27%, Africa -18%, Asia Pacific -18%, India -16%, and the UK & Ireland -10%. For 2020, the geopolitical landscape is expected to once again feature heavily in the markets, with a global contraction now more likely.

This market growth has enabled the company to increase turnover from £203m in 2018 to £211m in 2019. A reduction in material and warranty costs increased gross profit to £3.9m (2018: gross loss of £5.3m) on this increased turnover. The balance sheet remains strong with net assets of £11.1m in 2019 (2018: £12.8m).

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of JCB Service. The directors have received confirmation that JCB Service intends to support the company for at least one year from the date of approval of these financial statements. The JCB Service financial statements have been prepared on a going concern basis as set out further below.

Results in 2020 have been significantly impacted by the Covid-19 pandemic, which has brought about a period of economic uncertainty in the Group's markets. The Group has a strong liquidity position, including significant cash balances, and having taken account of reasonably possible changes in trading conditions, the Directors believe it is well positioned to weather this period of uncertainty. At 31 December 2019, the group had cash balances of £615.6m and subsequent to the year-end drew down its revolving credit facility in full and issued £600m of commercial paper under the government Covid Corporate Financing Facility scheme giving the group significant liquidity. At the same time, the group is taking precautionary steps such as reducing non-essential overheads. On 18 March 2020, the group took the decision to close a significant number of its factories as a result of Covid-19 and as a result furloughed a proportion of its workforce under various Government schemes in the markets it operates in. The Group reopened the majority of its factories in May 2020. It is not practicable to precisely quantify the potential financial impact the pandemic could have on the group, given the continued uncertainty.

The uncertainty as to the future impact of the Covid-19 outbreak has been considered as part of the group's adoption of the going concern basis. The Directors have reviewed financial forecasts for the 12 months from the approval date of these financial statements, taking account of reasonably possible changes in trading conditions. After making enquiries and testing the assumptions, including consideration of a severe but plausible downside scenario which models a significant reduction in sales volumes, together with considering sales performance during the post year end period and the current order book, the Directors have satisfied themselves that the group will be able to operate well within the level of its facilities and in continuing compliance with its financial covenants. In addition, the Group has identified a number of mitigating actions that are within management's control and can be actioned on a timely basis to be effective should trading deteriorate and are therefore satisfied there is no material uncertainty. Accordingly, the group continues to adopt the going concern basis in preparing the financial statements.

Principal risks and uncertainties

The principal risk facing JCB Power Systems Limited is the cyclical nature of the industry as a whole which, in broad terms, tracks the global economic cycle. To manage this risk, JCB Power Systems Limited addresses a spectrum of regional markets and product sectors, and operates an organisation and capital structure which is flexible and fast reacting to market conditions.

JCB Power Systems Limited

Strategic report for the year ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

Other key risks monitored by the executive management team are the competitive environment, protection of intellectual property, availability of key raw materials, changing regulations and macroeconomic factors such as cyber security, terrorism, natural disaster and infectious disease. Executive management monitors these on a regular basis and has plans in place to mitigate these risks.

The company continues to monitor the situation relating to Covid-19 and its impact on both the business and the industry as a whole. On 18 March 2020, the JCB Service Group took the decision to close the majority of its factories as a result of Covid-19 and as a result furloughed a proportion of its workforce under various Government schemes in the markets it operates in. The group reopened the majority of its factories in May 2020.

The company continues to make preparations in respect of the change in the regulatory landscape brought about by the UK's exit from the European Union on 31 January 2020. The company has substantial experience in buying components from and selling finished goods to countries outside the EU, on different terms to the Single Market and therefore does not foresee any particular difficulty.

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 program that seeks to limit the adverse effects on the financial performance of the company.

Credit risk

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

Liquidity risk

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

Exchange rate risk

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

Key performance indicators (KPIs)

JCB Power Systems Limited uses a range of financial and non-financial indicators to monitor performance.

Financial measures are turnover and operating profit:

	2019 £'000	2018 £'000
Turnover	211,309	202,630
Operating loss	(854)	(10,192)

Non-financial indicators include operational statistics, health and safety measures and environmental factors.

JCB Power Systems Limited

Strategic report for the year ended 31 December 2019 (continued)

Section 172(1) statement

The directors satisfy their duty to promote the long-term success of the company whilst having regard to the matters and stakeholders described in Section 172, points (a) to (f) of the Companies Act 2006 through the adherence to its Corporate Governance framework, as outlined in the directors report. The ultimate long-term success of the company is dependent upon the efforts of its stakeholders, including employees, suppliers and customers, and the directors take into consideration the interests of these stakeholders when making decisions.

Employees

The directors consider the interests of employees when making decisions through regular consultation where both important information is provided and feedback is obtained. The directors have a strong and collaborative working relationship with employees, for example, the directors engaged closely with the workforce when they assessed how the company should react to the Covid-19 outbreak.

Suppliers and customers

The company develops innovative new products that are designed to meet global customer's needs. This requires a close relationship with customers who provide valuable feedback, which the directors use when making decisions regarding the direction of product development. New product development requires new components and regular discussions with suppliers help drive the direction of sourcing decisions made by the directors. Regular meetings and conferences with customers and suppliers facilitate this process.

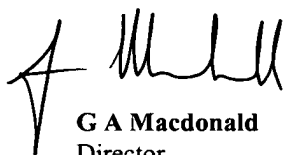
Community and the Environment

The company's strategy for environmental sustainability covers six core work streams - alternative fuels and product efficiency; waste reduction; use of recycled materials; carbon reduction in the logistics and manufacturing operations; removal of single use plastics; and culture and behaviour change. Achieving these core work streams drives the decision making of the directors who are committed to delivering a reduction in carbon emissions from the business.

Business conduct

The company maintains a strict code of conduct to promote and maintain high standards of business conduct and to ensure it acts fairly towards its various stakeholders. The company's supplier code of conduct, health and wellbeing policy and other documents are published on the JCB website.

Approved on behalf of the board



G A Macdonald
Director

26 June 2020

JCB Power Systems Limited

Directors' report for the year ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Future developments

Details of anticipated future developments in the company's business have been provided in the strategic report; see pages 2 to 4 for further information.

Dividends

The directors do not propose the payment of a dividend (2018: £nil).

Research and development

The company continues to invest in product research and development with expenditure during the year of £26.7 million (2018: £24.3 million).

Statutory records

The company is a privately held company, limited by shares, and incorporated in England. Its company registration number is 04797821.

Directors

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

G A Macdonald

M W Turner

M D Chiles (Appointed 1 January 2020, resigned 15 April 2020)

A R Whyman (Appointed 1 January 2020)

Directors' indemnity insurance

The company purchases qualifying third party indemnity 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. This indemnity was in place throughout the financial year, and at the date of approval.

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.

Stakeholder engagement

The company maintains a close relationship with customers who provide valuable feedback, critical for developing innovative new products that are designed to meet global customer's needs. Regular discussions with suppliers help drive the direction of sourcing decisions made by the directors. Regular meetings and conferences with customers and suppliers facilitate this process.

JCB Power Systems Limited

Directors' report for the year ended 31 December 2019 (continued)

Stakeholder engagement (continued)

Regarding the environment, the company's strategy for environmental sustainability covers six core work streams - alternative fuels and product efficiency; waste reduction; use of recycled materials; carbon reduction in the logistics and manufacturing operations; removal of single use plastics; and culture and behaviour change. Achieving these core work streams drives the decision making of the directors who are committed to delivering a reduction in carbon emissions from the business.

Matters disclosed elsewhere within the financial statements

Required disclosures in relation to the company's principal activity, key performance indicators, business review, principal risks and uncertainties and financial risk management have been included within the company's strategic report on pages 2 to 4 of these financial statements.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

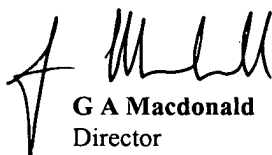
JCB Power Systems Limited

Directors' report for the year ended 31 December 2019 (continued)

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 financial statements 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

26 June 2020

JCB Power Systems Limited

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

Report on the audit of the financial statements

Opinion

In our opinion, JCB Power Systems Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Profit and loss account and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

JCB Power Systems Limited

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.



Graham Parsons (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

26 June 2020

JCB Power Systems Limited

Profit and loss account for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	5	211,309	202,630
Cost of sales		(207,413)	(207,900)
Gross profit/(loss)		3,896	(5,270)
Distribution costs		(1,088)	(1,349)
Administrative expenses		(3,662)	(3,573)
Operating loss	6	(854)	(10,192)
Interest receivable and similar income	9	21	-
Interest payable and similar expenses	10	(1,117)	(522)
Loss before taxation		(1,950)	(10,714)
Tax on loss	11	282	1,767
Loss for the financial year		(1,668)	(8,947)

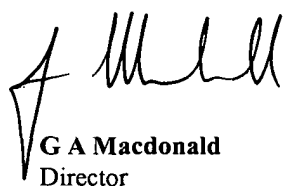
All activities are derived from continuing operations.

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

JCB Power Systems Limited
Balance sheet as at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	12	18,663	20,331
Current assets			
Stocks	13	21,444	29,873
Debtors	14	48,929	61,740
Cash and cash equivalents		15,875	1
		86,248	91,614
Creditors: amounts falling due within one year	15	(86,429)	(89,612)
Net current (liabilities)/assets		(181)	2,002
Total assets less current liabilities		18,482	22,333
Provisions for liabilities	17	(7,356)	(9,539)
Net assets		11,126	12,794
Capital and reserves			
Called up share capital	19	-	-
Retained earnings	20	11,126	12,794
Total shareholder's funds		11,126	12,794

The financial statements on pages 10 to 25 were approved by the board of directors on *26 June 2020* and were signed on its behalf by:


G A Macdonald
 Director

Registered Number: 04797821

JCB Power Systems Limited

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital £'000	Retained earnings £'000	Total shareholder's funds £'000
Balance as at 1 January 2018	-	21,741	21,741
Loss for the financial year	-	(8,947)	(8,947)
Total comprehensive expense for the year	-	(8,947)	(8,947)
Balance as at 31 December 2018	-	12,794	12,794
Loss for the financial year	-	(1,668)	(1,668)
Total comprehensive expense for the year	-	(1,668)	(1,668)
Balance as at 31 December 2019	-	11,126	11,126

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019

1. General information

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

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

2. Statement of compliance

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

The company is a wholly-owned subsidiary of JCB Service and is included in the consolidated financial statements of JCB Service, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102. The company is also exempt under the terms of FRS 102 from disclosing related party transactions with entities that are part of the JCB Service group or investees of the JCB Service group. The company has taken advantage of the exemption from disclosing total compensation to key management personnel under paragraph 33.7 of FRS 102. The company has also taken the exemption in respect of certain financial instrument disclosures as allowed by FRS 102. For details of other related party transactions see note 22.

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.

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) Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of JCB Service. The directors have received confirmation that JCB Service intends to support the company for at least one year from the date of approval of these financial statements. The JCB Service financial statements have been prepared on a going concern basis as set out further below.

Results in 2020 have been significantly impacted by the Covid-19 pandemic, which has brought about a period of economic uncertainty in the Group's markets. The Group has a strong liquidity position, including significant cash balances, and having taken account of reasonably possible changes in trading conditions, the Directors believe it is well positioned to weather this period of uncertainty.

At 31 December 2019, the group had cash balances of £615.6m and subsequent to the year-end drew down its revolving credit facility in full and issued £600m of commercial paper under the government Covid Corporate Financing Facility scheme giving the group significant liquidity. At the same time, the group is taking precautionary steps such as reducing non-essential overheads. On 18 March 2020, the group took the decision to close a significant number of its factories as a result of Covid-19 and as a result furloughed a proportion of its workforce under various Government schemes in the markets it operates in. The Group reopened the majority of its factories in May 2020. It is not practicable to precisely quantify the potential financial impact the pandemic could have on the group, given the continued uncertainty.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

(a) Going concern (continued)

The uncertainty as to the future impact of the Covid-19 outbreak has been considered as part of the group's adoption of the going concern basis. The Directors have reviewed financial forecasts for the 12 months from the approval date of these financial statements, taking account of reasonably possible changes in trading conditions.

After making enquiries and testing the assumptions, including consideration of a severe but plausible downside scenario which models a significant reduction in sales volumes, together with considering sales performance during the post year end period and the current order book, the Directors have satisfied themselves that the group will be able to operate well within the level of its facilities and in continuing compliance with its financial covenants. In addition, the Group has identified a number of mitigating actions that are within management's control and can be actioned on a timely basis to be effective should trading deteriorate and are therefore satisfied there is no material uncertainty. Accordingly, the group continues to adopt the going concern basis in preparing the financial statements.

(b) 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, normally on an ex works basis for machines and on despatch for parts. 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 over the life of the contract.

Interest income is recognised using the effective interest rate method.

(c) 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.

(d) 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.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(e) 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.

(f) Tangible fixed assets

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

The principal rates used are:

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

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

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

(g) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(g) Impairment of non-financial assets (continued)

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

(h) 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.

(i) Warranty provision

Provision is made for the company's estimated liability on all machines still under warranty, including claims already received. The provision is charged against trading profits and is included in provisions for liabilities, with amounts recoverable from suppliers included within other debtors. Deferred income in relation to warranty contracts is included within the warranty provision and released over the life of the policy net of the costs incurred.

(j) Research and development

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

(k) Repairs and renewals

All repairs and renewals are expensed as incurred.

(l) 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.

(m) 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.

(n) 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.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(o) Financial instruments

The company has chosen to adopt 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.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (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 lives and recoverability of tangible and intangible 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 12 for the carrying amount of the tangible assets, and note 3 for the useful economic lives for each class of assets.

The useful economic lives of intangible assets are determined by the directors upon inception and are re-assessed annually. They are amended to reflect any degradation of the asset that becomes apparent.

There are a number of assumptions made when performing annual impairment reviews over the group's tangible and intangible assets. Where an indicator of impairment exists, determining whether such assets are impaired requires an estimation of the value in use of the assets, based upon expected future cash flows and a suitable discount rate.

(b) Stock provisioning

The company designs, manufactures and sells construction equipment and is subject to market demands and regulatory requirements. As a result it is necessary to consider the recoverability of the cost of stock and the associated provision required. When calculating the stock provision, management considers the nature and condition of its stock, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 13 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 14 for the net carrying amount of the debtors and associated impairment provision.

(d) Warranty provision

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

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

5. Turnover

An analysis of turnover by geographical market is given below:

	2019 £'000	2018 £'000
United Kingdom	195,773	183,404
Europe	3,192	3,412
North America	8,824	8,858
Middle East	50	41
Far East	703	652
Latin America	1,388	993
India	1,268	5,168
Africa	111	102
	211,309	202,630

JCB Power Systems Limited is engaged in a single class of business: the design, manufacture and sale of engines.

6. Operating loss

Operating loss is stated after charging:

	2019 £'000	2018 £'000
Hire of machinery and equipment	576	623
Foreign currency (gains)/losses	(246)	16
Depreciation of tangible fixed assets	3,303	2,900
Research and development expenditure	26,746	24,323
Services provided by the company auditors:		
Fees payable for the audit	35	23

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:

	2019 Number	2018 Number
Directors	2	2
Administration and service	186	202
Production	112	104
	300	308

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 £'000
Wages and salaries	18,447	16,027
Social security costs	1,384	1,576
Other pension costs	981	1,209
	20,812	18,812

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

8. Directors' emoluments

The directors' emoluments for the year were as follows:

	2019 £'000	2018 £'000
Directors' emoluments	-	-
Defined benefit pension cost	-	-
	-	-

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

	2019 Number	2018 Number
Defined benefit	-	-

The aggregate emoluments of the highest paid director (excluding pension contributions) were £nil (2018: £nil).

Emoluments of the directors are borne by other group companies.

9. Interest receivable and similar income

	2019 £'000	2018 £'000
Bank interest	21	-

10. Interest payable and similar expenses

	2019 £'000	2018 £'000
Group interest	1,071	406
Bank interest	6	54
Discounting charges	40	62
	1,117	522

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

11. Tax on loss

Analysis of charge in the year

	2019 £'000	2018 £'000
Current tax		
UK corporation tax charge/(credit) on loss of the year	58	(1,942)
Adjustment in respect of prior year	48	294
Total current tax	106	(1,648)
Deferred tax		
Origination and reversal of timing differences	(373)	(108)
Adjustments in respect of prior year	(15)	(11)
Total deferred tax	(388)	(119)
Total tax on loss	(282)	(1,767)

Factors affecting current year tax charge

The tax assessed on the loss for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).

The differences are explained below:

	2019 £'000	2018 £'000
Loss before taxation	(1,950)	(10,714)
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(371)	(2,036)
Permanent differences	56	(14)
Adjustment in respect of prior year	33	283
Total tax for the year	(282)	(1,767)

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the company's losses for this accounting year are taxed at an effective rate of 19%.

Deferred tax liabilities have not been discounted.

Future tax changes

Changes to the UK corporation tax rates were announced on 16 March 2016. These changes were substantively enacted as part of the Finance Bill 2016 on 6 September 2016 and include reductions to the main rate to 17% from 1 April 2020. These changes have been reflected in these financial statements. On 11 March 2020, it was announced that the reduction in the main rate to 17% would no longer proceed with the UK rate remaining at 19%. This change has yet to be substantively enacted and is therefore not reflected in these financial statements.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

12. Tangible assets

	Buildings	Plant & Machinery	Fixtures, Fittings and Equipment	Assets in the Course of Construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 January 2019	1,498	25,766	2,085	13,946	43,295
Additions	-	-	-	1,635	1,635
Disposals	-	(31)	-	-	(31)
Reclassification	-	13,969	-	(13,969)	-
As at 31 December 2019	1,498	39,704	2,085	1,612	44,899
Accumulated depreciation					
As at 1 January 2019	297	21,089	1,578	-	22,964
Charge for the year	30	2,942	331	-	3,303
Eliminated on disposals	-	(31)	-	-	(31)
As at 31 December 2019	327	24,000	1,909	-	26,236
Net book value at 31 December 2019	1,171	15,704	176	1,612	18,663
Net book value at 31 December 2018	1,201	4,677	507	13,946	20,331

Depreciation is charged in cost of sales.

13. Stocks

	2019 £'000	2018 £'000
Raw materials	17,143	22,050
Work in progress	78	309
Finished goods	4,223	7,514
	21,444	29,873

Stocks are stated after provisions for impairment of £875,000 (2018: £200,000).

The value of stock in the balance sheet is not materially different from the replacement cost.

14. Debtors

	2019 £'000	2018 £'000
Trade debtors	2,122	1,909
Amounts owed by group undertakings	31,437	36,082
Amounts owed by related parties outside the JCB Service group	906	2,480
Corporation tax recoverable	-	1,967
Other debtors	11,839	14,938
Prepayments and accrued income	2,625	4,364
	48,929	61,740

Trade debtors are stated net of amounts discounted without recourse of £3,340,000 (2018: £4,247,000).

An impairment loss of £nil (2018: £nil) was recognised against trade debtors.

Amounts owed by group undertakings are trading balances and do not gather interest.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

15. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loans and overdrafts	-	7,001
Trade creditors	9,185	16,245
Amounts owed to group undertakings	70,928	56,548
Amounts owed to other related parties outside JCB Service group	197	414
Corporation tax	650	-
Other taxation and social security	436	549
Accruals and deferred income	5,033	8,855
	86,429	89,612

16. Pension schemes

The company is a participating employer in two defined benefit schemes: J C Bamford Lifeplan and J C Bamford Excavators Limited Senior Directors and Executives Retirement Benefit scheme. These schemes have a combined deficit of £291.5 million (2018: £250.1 million) calculated in accordance with FRS102. Details of these schemes are disclosed in the financial statements of JCB Service.

17. Provisions for liabilities

	2019 £'000	2018 £'000
Deferred tax	166	554
Warranty provision	7,190	8,985
	7,356	9,539

Deferred tax

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

	2019 £'000	2018 £'000
As at 1 January	554	673
Deferred tax (credited) to the profit and loss account	(388)	(119)
As at 31 December	166	554

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

	2019 £'000	2018 £'000
Difference between capital allowances and depreciation on fixed assets	166	554

The net decrease in deferred tax asset expected to occur next year is £17,000 relating to depreciation on fixed assets being higher than capital allowances.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

17. Provisions for liabilities (continued)

Warranty provision

	2019 £'000	2018 £'000
As at 1 January	8,985	1,531
Charged to the profit and loss account	7,500	11,562
Amounts utilised during the year	(9,295)	(4,108)
As at 31 December	7,190	8,985

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.

18. Financial instruments

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Financial assets constituting debt instruments measured at amortised cost					
- Trade debtors	14	2,122		1,909	
- Amounts owed by group undertakings	14	31,437		36,082	
- Amounts owed by related parties outside the JCB Service group	14	906		2,480	
- Other debtors	14	11,839		14,938	
			46,304		55,409
Financial liabilities measured at amortised cost					
- Bank loans and overdrafts	15	-		7,001	
- Trade creditors	15	9,185		16,245	
- Amounts owed to group undertakings	15	70,928		56,548	
- Amounts owed to related parties outside JCB Service group	15	197		414	
- Accruals	15	5,033		8,855	
			85,343		89,063

19. Called up share capital

	2019 £	2018 £
Allotted, called up and fully paid up		
1 Ordinary share of £1 each (2018: 1 Ordinary share of £1 each)	1	1

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

20. Reserves

Called up share capital – represents the nominal value of shares that have been issued.

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

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

21. 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.

22. Related party transactions

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

The company subcontracts some of its research and development projects to JCB Research, a company in which Lord Bamford is the sole shareholder. It has also provided certain research and development services to JCB Research during the year. The total value of services purchased by the company during the year was £432,000 (2018: £474,000). The net amount owed to the company by JCB Research at 31 December 2019 was £9,000 (2018: £4,000).

The company has sold engines and parts to JCB Construction Equipment (Shanghai) Limited, a company ultimately controlled by Bamford family interests. The total value of these transactions was sales of £510,000 (2018: £627,000). The net amount owed to the company at 31 December 2019 by JCB Construction Equipment (Shanghai) Limited was £877,000 (2018: £367,000).

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 £5,366,000 (2018: £7,363,000). The net amount due to JCB Hong Kong Limited at 31 December 2019 was £197,000 (2018: £389,000).

The company provided administrative services to JCB Access Limited, a company in which The Lord Bamford DL is the sole shareholder. The total value of these transactions was sales of £10,000 (2018: £10,000). The net amount owed to the company by JCB Access Limited at 31 December 2019 was £20,000 (2018: £10,000).

23. Ultimate controlling party

The company is a wholly-owned subsidiary of J.C. Bamford Excavators Limited, a limited liability company incorporated in England and Wales and which is the smallest company to consolidate the results of the company. The largest company to consolidate the financial statements of J.C. Bamford Excavators Limited 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, Blaak 40, 3011 TA, Rotterdam and J.C. Bamford Excavators Limited financial statements are available from Companies House.

24. Events after the reporting period

On 18 March 2020, the JCB Service Group took the decision to close the majority of its factories as a result of Covid-19 and as a result furloughed a proportion of its workforce under various Government schemes in the markets it operates in. The group has reopened the majority of its factories in May 2020. As this is considered only a temporary disruption, no asset impairments are deemed necessary.