

Registration number: 02089227

Perkins Engines Company Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

16/9/23

MONDAY



ACBV60S1

A13 11/09/2023 #23

COMPANIES HOUSE

Perkins Engines Company Limited

Contents

	Pages
Company Information	1
Strategic Report	2 to 7
Directors' Report	8 to 20
Independent Auditors' Report to the Members of Perkins Engines Company Limited	21 to 24
Statement of Comprehensive Income	25
Balance Sheet	26
Statement of Changes in Equity	27
Notes to the Financial Statements	28 to 52

Perkins Engines Company Limited

Company Information

Directors	R Cotterell S Ferguson J S Gill D Goldspink J Horn K A L Zaduck
Company secretary	N Moreno Prieto
Registered office	Eastfield Frank Perkins Way Peterborough PE1 5FQ
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors One Chamberlain Square Birmingham B3 3AX

Perkins Engines Company Limited

Strategic Report for the Year Ended 31 December 2022

The directors present their strategic report for the year ended 31 December 2022.

Business review

The company has seen turnover increase by 31% from £1,318,034,000 in 2021 to £1,722,501,000 in 2022 driven by our improved supply chain capabilities and ability to respond to the continued pent up demand requirements from the pandemic period. Demand remained strong as our customers needed to right-size their inventory positions.

The operating loss for the year has increased by £3,604,000 compared to 2021, increasing the loss before tax to £89,779,000. Continued commodity price increases, inflationary pressures on freight costs, energy costs and labour rates contributed to these larger losses year on year. In the first half of the year, we spent a significant amount on airfreight to address supply chain challenges to ensure we could meet customer commitments. As we exited the year, the level of airfreight spend was significantly reduced.

Net assets for the company decreased from a 2021 balance of £179,357,000 to £95,998,000 predominantly driven by working capital reduction of £20,000,000, a decrease in deferred taxation asset of £19,185,000 and an increase in provisions of £36,573,000.

The company continues to invest in its product portfolio to maintain its position at the forefront of diesel technology and in compliance with the evolving emission regulations around the world.

Financial key performance indicators

The company's key financial performance indicators during the financial year were as follows:

	Unit	2022	2021
Turnover increase	%	31	17
Gross profit margin	%	18	21
Operating loss margin	%	(5)	(6)

Turnover increased by 31% versus 2021 with increases seen across all regions, principally due to industry recovery.

Gross profit margin softened year on year, 21% in 2021 and 18% in 2022 reflecting inflationary pressures on commodity prices, freight rates and labour costs.

Operating loss margin reduced to 5% in 2022 reflecting growth in turnover driven by the industry recovery which outweighed an increase in administrative and distribution costs.

Perkins Engines Company Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Non-financial key performance indicators

Safety

The health and safety of our employees is an important focus at the company, and we strive to continually reduce our recordable injuries. The company uses lean manufacturing techniques to assess and improve safety in all facilities and operates an education program for manufacturing new hires to accelerate acclimation to our safety culture.

In 2022 the company recorded 3 injuries which was a reduction of 5 compared to 2021. Work continues on this so the company can achieve the zero injury target in the future.

People

In addition to our focus on safety, we strive to continually attract, develop, engage, and retain a high-performing diverse global team that executes our strategy of long-term profitable growth. We are committed to employee development and helping them reach their full potential, by making on-going investments in our team. Our Apprenticeship, Graduate, and other career programs for engineering, marketing, and manufacturing provide development opportunities for early career employees. We also have a continual focus on strengthening technical, professional and leadership capabilities at every level. Strategic talent reviews and succession planning occur at a minimum, annually, across our businesses.

The directors are responsible for safeguarding the assets of the company and therefore on an annual basis, all employees are required to complete mandatory required learning that includes but is not limited to prevention and detection measures on; Fraud and anti-bribery, Data Privacy, Insider Trading and Social Engineering.

Future developments

The company continues to monitor global business conditions. Transportation challenges have improved through the second half of 2022, and this is expected to continue for the foreseeable future. Costs pressure still exist especially in material and labour costs, so the business continues to look at cost mitigations as well as taking appropriate price actions in response to rising costs. The company remains vigilant to supply chain disruptions and contingency plans have been developed and continue to be modified to minimise supply chain challenges that may impact our ability to meet increasing customer demand.

The company continues to execute its growth plan for the 900 series engine with expected future growth in affiliated companies and third parties in the coming years. There is continued investment in the business to meet customer requirements and enhancements as well as changing circumstances, including new legislation/emission related changes to products. The company will continue to design, manufacture, and sell diesel engines that are emissions compliant while assessing providing complementary alternate power solutions.

Perkins Engines Company Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks predominantly affecting the company are the increasing competitiveness of the diesel engine market and the rapid changes in emissions legislation. The company continues to invest in the development of engines for their respective markets and reducing emissions.

Other risks include:

Environmental risk

Our facilities, operations and products are subject to increasingly stringent environmental laws and regulations globally, including laws and regulations governing emissions to noise, air, releases to soil and discharges to water and the generation, handling, storage, transportation, treatment and disposal of non-hazardous and hazardous waste materials.

Some environmental laws impose strict, retroactive and joint and several liability for the remediation of the release of hazardous substances, even for conduct that was lawful at the time it occurred, or for the conduct of, or conditions caused by, prior operators, predecessors or other third parties. Failure to comply with environmental laws could expose us to penalties or clean-up costs, civil or criminal liability and sanctions on certain of our activities, as well as damage to property or natural resources. The potential liabilities, sanctions, damages and remediation efforts related to any non-compliance with such laws and regulations could negatively impact our ability to conduct our operations and our financial condition and results of operations. In addition, there can be no assurances that we will not be adversely affected by costs, liabilities or claims with respect to existing or subsequently acquired operations or under present laws and regulations or those that may be adopted or imposed in the future.

Environmental laws and regulations may change from time to time, as may related interpretations and other guidance. Changes in environmental laws or regulations could result in higher expenses and payments, and uncertainty relating to environmental laws or regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights. Changes in environmental and climate change laws or regulations, including laws relating to greenhouse gas emissions, could lead to new or additional investment in product designs and could increase environmental compliance expenditures.

Changes in climate change concerns, or in the regulation of such concerns, including greenhouse gas emissions, could subject us to additional costs and restrictions, including increased energy and raw materials costs. If environmental laws or regulations are either changed or adopted and impose significant operational restrictions and compliance requirements upon us or our products, they could negatively impact our reputation, business, capital expenditures, results of operations, financial condition and competitive position.

Management regularly review and assess identified risk and based on this risk assessment consider whether any financial liability exists. Based on this assessment no environmental provisions are currently held.

Perkins Engines Company Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to our dealers, OEMs and end-user customers. This is dependent on a number of factors, including our ability to maintain key dealer relationships; our ability to produce products that meet the quality, performance and price expectations of our customers and our ability to develop effective sales, advertising and marketing programs. In addition, our continued success in selling products that appeal to our customers is dependent on leading-edge innovation, with respect to both products and operations, and on the availability and effectiveness of legal protection for our innovations. Failure to continue to deliver high quality, innovative, competitive products to the marketplace, to adequately protect our intellectual property rights; to supply products that meet applicable regulatory requirements, including engine exhaust emission requirements or to predict market demands for, or gain market acceptance of, our products, could have a negative impact on our business, results of operations and financial condition.

Cyber risk

Cyber risk relates to the risk associated with financial loss, disruption or damage to the reputation of the company as a result of failure, unauthorised or erroneous use of the company's information systems.

The Caterpillar Inc. group of companies approaches information security risk management through a comprehensive program to identify, assess, quantify, mitigate, transfer or formally accept information security risk at an appropriate level of the company. The program is chartered to operate across the extended enterprise to protect the company's people, information, property, products and brand from the cyber risks by seeking to preserve the confidentiality, integrity and availability of information, and to enable the safe operation of our connected machines.

The Caterpillar Inc. group of companies have established, implemented, work hard to maintain, and seek continually to improve the information security risk management program aligned with ISO 27001, which includes various procedures and controls to mitigate such cyber risks. Our program gives confidence to our people, partners and customers that information risks are adequately managed. Supported by Enterprise Policies and Procedures, the program also includes sophisticated technologies and detailed security processes we execute 24 hours a day, every day.

The company is aware of the risk of a cyber-attack taking place and education programs in the form of communications and mandatory online training are deployed ensuring company employees are aware of potential threats and have appropriate IT security awareness. Robust onboarding and offboarding processes ensure any employee turnover is managed in accordance with cyber security protocols.

Streamlined Energy and Carbon Report

The Streamlined Environmental Carbon Report is disclosed within the Directors' Report alongside further information on sustainability.

Perkins Engines Company Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Section 172(1) Statement

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of The Companies Act 2006.

Board of Directors

The Board of Directors appointed to manage Perkins Engines Company Limited participates in, oversees, advises and counsels the management of the company and monitors the management team's performance and legal and ethical compliance.

Perkins Engines Company Limited's Board members have been given training regarding duties, responsibilities and liabilities of Directors. Members of the Board also participate in the management of the business. As leaders and managers, they are regularly exposed to formal leadership and business-related training. Board members have access to other members of the company's management, and will, from time to time, invite other executives and employees to participate in, or provide information for use at Board meetings so that the Board has additional insight on items or issues to be decided by the Board. The Board may, from time to time, engage outside advisors or other experts as it deems necessary or appropriate to assist it in carrying out its responsibilities.

Employee engagement

Perkins Engines Company Limited is committed to providing a safe, engaging and productive work environment for its employees. The directors recognise the need to maintain good communications with employees and to increase their involvement in their work. Management is responsible for the detailed development of communications and participation practices as required by their local situations. The practices involved include providing information to employees on the company's products, financial results, operations, plans and economic factors affecting the company's performance through house journals, news bulletins, briefing meetings and video presentations, such as the division's All Employee Meetings and the Weekly News bulletins.

Human resource development is a key element of the company's long term strategic priorities, with particular emphasis on learning. There is a share scheme, which enables employees to invest in shares of the ultimate parent company, Caterpillar Inc.

Stakeholder engagement

The company is committed to understanding the needs of its customers, and together with its partners, delivering industry-leading products and services.

The company maintains a collaborative working relationship with distributors and customers, and has dedicated account managers allocated enabling the provision of regular updates regarding the company's business and products.

The company has high standards for quality, delivery, and price and its suppliers play a key role in the company's commitment to excellence. Suppliers are given access to a dedicated portal that provides transparency to our suppliers on performance requirements, our organisation, and how to begin doing business. The portal also provides the key information that any supplier needs to know regarding the requirements, policies, and procedures in the areas of Business Requirements and Regulations, Quality and Supply Chain. Each supplier also has a dedicated buyer who partners them, for ease of communication and continuous improvement.

Perkins Engines Company Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Communities and environment

Perkins Engines Company Limited takes its responsibility to the various communities in which we work very seriously and follows a group-wide strategy of sustainability and energy efficiency. Manufacturing is a process that unavoidably uses energy however we have committed to sustainable manufacturing processes that minimise both the energy consumed and the waste produced.

The company takes its responsibility to the various communities it works in very seriously and has a philosophy of 'think global, act local'.

The financial statements on pages 25 to 52 were approved by the Board of Directors on 6 September 2023 and signed on its behalf by:



J Horn
Director

Date: 6 September 2023

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

Directors of the company

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

R Cotterell
S Ferguson
J S Gill
D Goldspink
J Horn
K A L Zaduck

Dividends

There were no dividends paid in the financial year under review (2021 - £Nil).

The directors recommend that no dividend be proposed or declared for the year ended 31 December 2022 (2021 - £Nil).

Cash pooling / cash funding

The company is part of the Caterpillar Inc. group's cash pooling / funding arrangements. This is administered by Caterpillar Corporate Treasury, who ensure the company receives the funds it requires in order to meet its obligations.

Receipts and payments between fellow group companies are transacted via the intercompany loan accounts. Any other receipts and payments are transacted through the company bank accounts.

The balances of these accounts are then transferred to the bank account of Caterpillar UK Holdings Limited (the Counterparty) on a daily basis. This enables the funds to be utilised by the Corporate Treasury function in the wider Caterpillar Inc. group.

The company has an intercompany loan agreement with Caterpillar UK Holdings Limited. This agreement may be terminated by either party upon 30 days advance written notice to the other party. Upon termination, the borrower shall pay the principal amount outstanding under the loan with accrued interest, unless otherwise agreed among the parties.

The current limit of the loan agreement is £400,000,000, but this can be increased as required by any party on demand basis. During the year the maximum amount borrowed was £413,991,000 (2021 - £188,128,000).

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Going concern

In assessing the appropriateness of the going concern basis of preparation the directors have reviewed detailed cash flow forecasts over the going concern period of review which runs to 31 December 2024, considering reasonably anticipated scenarios in relation to revenue and costs, including a severe but plausible scenario. Based on these cashflow forecasts the company can meet its liabilities as they become due.

The company meets its day-to-day working capital requirements through intercompany cash pooling / funding arrangements. This provides the company access to the cashflows necessary for the day-to-day running of the company, and to support the going concern assertion.

The company has obtained a letter of support from Caterpillar Inc. that confirms the availability of funding necessary to enable Perkins Engines Company Limited to continue in existence as a going concern to meet its liabilities as they fall due and to carry on its business for at least 12 months from the date of the approval of these financial statements.

As reported above, the company is part of the Caterpillar Inc. group's cash pooling/funding arrangements and the going concern assessment for Perkins Engines Company Limited is linked to the financial strength of Caterpillar Inc., the ultimate parent undertaking. From a liquidity perspective Caterpillar Inc. ended the second quarter of 2023 with \$7.4 billion of cash and available global credit facilities of more than \$8.6 billion. Having considered the liquidity forecasts of Caterpillar Inc, the directors are satisfied that it has sufficient ability to honour the support confirmed to the company should it be called upon.

Considering all the above, the directors have a reasonable expectation that the company has adequate financial and other resources to continue in operation for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Employment of disabled persons

Disabled persons are employed and trained where their aptitudes and abilities allow and where there are suitable vacancies. Every effort is made to ensure that employment continues for employees who become disabled, training being arranged as appropriate. It is the policy of the company that, as far as possible, disabled and able-bodied people should enjoy identical career opportunities.

Engagement with employees

See Section 172(1) Statement within the Strategic Report.

Engagement with stakeholders

See Section 172(1) Statement within the Strategic Report.

Research and development

During the year the company continued to carry out research and development in order to maintain its position at the forefront of diesel technology and ensure global emissions regulations compliance.

As part of this policy of continually updating products and introducing new models to market, the company has ongoing commitment to research and development.

Expenditure on research and development during 2022 (excluding the UK's research and development expenditure tax credit and recharges to fellow group companies) totalled £67,289,000 (2021 - £73,748,000).

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Financial risk management

Objectives and policies

The company is exposed to a variety of financial risks. The company's overall risk management programme seeks to minimise potential risks for the company. Management reviews and agrees policies for managing risks. The most important components of financial risk affecting the company are price risk, interest rate risk, credit risk, foreign currency risk and liquidity risk.

Price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk

Price risk

The company is exposed to price risk as a result of its operations. In order to manage this exposure the company seeks to secure fixed price agreements with suppliers. The company is exposed to price realisation risk, in that it may not be able to pass on inflationary cost increases onto its customers.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Corporate Treasury monitors and manages interest rate risk for the company. Variable and fixed rate intercompany loans are set up by Corporate Treasury to hedge against the interest rate risk of the portfolio.

Foreign currency risk

The company acquires components from a number of overseas suppliers and also generates revenue from export sales in multiple currencies. However, in the view of the relative values of the sales and purchases the company does not consider hedging foreign currency exposures is necessary. This position is kept under review.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company's policy is to limit counterparty exposures by setting credit limits for each counterparty and credit checks are performed on potential customers before sales are made.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The finance team manages this risk centrally. The Board is satisfied that the company is not subject to significant liquidity risk at the year end.

The company has obtained a letter of support from Caterpillar Inc. that confirms the availability of funding necessary to enable Perkins Engines Company Limited to continue in existence as a going concern to meet its liabilities as they fall due and to carry on its business in the 12 months from the date of the approval of these financial statements.

Future developments

The company's future developments are detailed in the Strategic Report.

Branches outside the United Kingdom

The company has a branch in Japan.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Streamlined Energy and Carbon Report (SECR)

The gross greenhouse gas (GHG) emissions for Perkins Engine Co Ltd is 13,739 tonnes of carbon dioxide equivalent (tCO₂e) at an emissions intensity of 8.0 tCO₂e per £m revenue for the period 1st January 2022 to 31st December 2022. This represents an overall reduction in emissions of 4.4% compared to the previous twelve months and a 26.8% decrease in carbon emissions intensity from the business activities.

The gross GHG emissions figure includes all material Scope 1, 2 plus Scope 3 required to be disclosed by the legislation; that is the emissions associated with the purchase of electricity, the combustion of gas and the consumption of fuel for the purposes of transport.

Perkins Engines Company Limited's greenhouse gas emissions are broken down in the following sections.

Emissions and energy consumption

Summary of greenhouse gas emissions and energy consumption for the year ended 31 December:

Description	% of total	2022	2021 Restated
Natural gas	38.3%	5,261	5,716
Transport fuel	0.2%	24	54
Electricity	61.5%	<u>8,454</u>	<u>8,595</u>

Summary of scope 1 (direct) greenhouse gas emissions for the year ended 31 December:

Description	Unit	2022	2021 Restated
Combustion of natural gas	tCO ₂ e	5,261	5,716
Fuel combustion: transport	tCO ₂ e	24	33
		<u>5,285</u>	<u>5,749</u>

Summary of scope 2 (indirect) greenhouse gas emissions for the year ended 31 December:

Description	Unit	2022	2021 Restated
Consumed electricity	tCO ₂ e	<u>7,745</u>	<u>7,896</u>

Summary of scope 3 (other indirect) greenhouse gas emissions for the year ended 31 December:

Description	Unit	2022	2021 Restated
Fuel combustion: transport	tCO ₂ e	-	20
Consumed electricity	tCO ₂ e	709	699
		<u>709</u>	<u>719</u>

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Summary of energy consumption for the year ended 31 December:

Description	Unit	2022	2021 Restated
Natural gas	kWh	28,818,389	31,203,501
Transport fuel	kWh	99,163	216,571
Electricity	kWh	40,053,118	37,118,712
		<u>68,970,670</u>	<u>68,538,784</u>

During the data collection period for the period 1 January 2022 to 31 December 2022, the external service provider and issuer of the annual SECR report, identified that the values reported for the period 1 January 2021 to 31 December 2021 have been overstated.

Below tables illustrate the 2021 restated values compared to the 2021 reported values.

Summary of greenhouse gas emissions and energy consumption for the year ended 31 December 2021:

Description	2021 Restated tCO₂e	2021 tCO₂e
Natural gas	5,716	7,287
Transport fuel	54	54
Electricity	8,595	10,002
	<u>14,365</u>	<u>17,343</u>

Summary of scope 1 (direct) greenhouse gas emissions for the year ended 31 December 2021:

Description	2021 Restated tCO₂e	2021 tCO₂e
Combustion of natural gas	5,716	7,287
Fuel combustion: transport	33	33
	<u>5,749</u>	<u>7,320</u>

Summary of scope 2 (indirect) greenhouse gas emissions for the year ended 31 December 2021:

Description	2021 Restated tCO₂e	2021 tCO₂e
Consumed electricity	7,896	9,189
	<u>7,896</u>	<u>9,189</u>

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Summary of scope 3 (other indirect) greenhouse gas emissions for the year ended 31 December 2021:

Description	2021 Restated tCO₂e	2021 tCO₂e
Fuel combustion: transport	20	20
Consumed electricity	699	813
	719	833

Summary of energy consumption for the year ended 31 December 2021:

Description	2021 Restated kWh	2021 kWh
Natural gas	31,203,501	39,780,307
Transport fuel	216,571	216,571
Electricity	37,118,712	43,277,522
	68,538,784	83,274,400

Boundary, Methodology and Exclusions

The data contained in this document is calculated and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, March 2019. Energy consumptions cover those identified in section 7 of this guidance.

An 'operational control' approach has been used to define the Greenhouse Gas emissions boundary. This approach captures emissions associated with the operation of buildings within the scope of the regulation, plus transport; company-owned vehicles used for business travel. This report covers UK operations only, as required by SECR for Non-Quoted Large Companies. The report also includes emissions from waste generated from a range of sources and transmission distribution (T&D), this is a voluntary scope 3 emission that means the losses in transmission between sources of supply and points of distribution are included in the carbon emissions. By combining the T&D emissions with those from the generation of purchased electricity provides the emissions associated with electricity consumption, which is considered best practice.

Perkins Engines Co Ltd is not listed on a stock exchange such as the London Stock Exchange, so is classified as a Non-Quoted Large Company for the purpose of regulatory compliance. Emissions have been calculated using the 2021 conversion factors provided by Department for Business, Energy & Industrial Strategy. The reporting period is January 2022 to December 2022.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Energy efficiency initiatives

Perkins Engines Company Limited has always taken the opportunity to reduce the organisations energy usage when a potential opportunity presents itself with the benefits of decreased CO2 production and financial savings to the operation.

Peterborough Site

This has been a significant year for the IPSD Peterborough site as we look to execute our Sustainability vision. Projects identified and included within the strategy for the next 5 years to drive reductions in GHG emission against our corporate targets of 2% reduction year on year and significantly reduce our utilities overheads.

Energy efficiency initiatives include:

- Caterpillar 2030 goals (GHG/Water/Waste) introduced in 2021. Targeted reduction communicated.
- ISO50001 energy management certification maintained in 2022.
- Continued certification against investors in the environment (Green status). Working through action plan.
- Environmental and Energy auditing of the site.
- LED lighting upgrades and control - 10 bays of the factory area upgraded.
- 1 bay of roof replacement to reduce heat loss.
- Investigating additional PV solutions for the site.
- Identification of significant users and tracking of consumption. More data to analyse.
- Electrical infrastructure upgrades including metering at switch level. Energy monitoring software to be introduced in 2023.
- Monthly Compressed air leak detection surveys implemented across the facility. Energy savings of 931,152KWh per annum identified and acted on.
- 2 x Compressor replacement for Variable speed drive unit and compressor monitoring for efficiency. Lead compressors reduced consumption by 20%.
- Increase awareness and focus on energy management through engagement and visual displays of metrics and messaging. Switch off & Save initiative rolled out.
- Condition monitoring throughout the facility to highlight energy concerns.
- Service agreements in place for gas, HVAC, compressed air, etc. to ensure equipment is operating at its optimum and deficiencies are highlighted.

Stafford Site

Efficiency Measures include:

- Smart metering installation completed and local areas owners accountable for their energy costs.
- Energy campaign and energy saving observation reporting.
- Reduction in site heating temperature, when facility not operating e.g., weekends.
- All refurbishments to have LED lighting fitted as standard.

Statement of Corporate Governance Arrangements

Perkins Engines Company Limited, as part of the Caterpillar Group, has in place detailed corporate governance arrangements due to the requirements placed upon Caterpillar Inc. as a listed business. Having reviewed the Wates Principles the directors of Perkins can confirm that the company's corporate governance processes meet these requirements. There has been no departure from these principles.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Wates principles

Values and Culture

As part of the Caterpillar enterprise, Perkins applies the Caterpillar Code of Conduct.

While Perkins conducts business within the framework of applicable laws and regulations, for us, compliance with the law is not enough. We strive for more than that. Through our Code of Conduct, we envision a work environment where all can take pride in the company, others respect and admire it, and the world is made better by our actions. Together, we are laying the foundation for the values-based culture that will carry us forward to even higher levels of success.

Through employment practices, reinforcement of compliance through training and continuous updates of web based compliance information, and constant communication by leaders, we ensure that our Values in Action and “Winning the Right Way” are understood by our employees and business associates as the foundation of the Perkins business.

Strategy

Whilst Perkins, and other subsidiaries and divisions of Caterpillar, have specific strategic imperatives that drive success in their product lines, all are aligned with and apply the Caterpillar corporate strategy.

With our Values as a foundation, we leverage an information-driven approach - the Operating and Execution Model - to guide our decision-making process and ultimately, position us for continued profitable growth.

We are committed to understanding the needs of our customers, and together with our partners, delivering industry-leading products and services.

Board composition

Chair

Steve Ferguson is chair of Perkins Engines Company Limited (PECL) and a Vice President of Caterpillar, Inc. with responsibility for the Industrial Power Systems Division of which PECL makes up a major part.

Prior to his current appointment, Steve was the general manager of Advanced Component Manufacturing with responsibility for component manufacturing of hydraulics, cabs and drive train systems.

Since joining Caterpillar in 1990, Steve has held senior leadership roles in financial management for the Large Power Systems and Excavation Divisions. He also served as the chief financial officer for Caterpillar's Construction Industries segment, based in Singapore.

Steve has a bachelor's degree in business from Eastern Illinois University and is a graduate of the Northwestern Advanced Executive Development Program.

Balance and diversity

Perkins Engines Company Limited's shareholder has appointed a Board of Directors that participates in, oversees, advises and counsels the management of the company and monitors the management team's performance and legal and ethical compliance.

The Board Members are selected based upon characteristics, which include:

- (1) integrity, honesty and accountability, with a willingness to express independent thought;
- (2) successful leadership experience and background that demonstrates an understanding of business affairs generally, and the business of Perkins, more specifically;
- (3) demonstrated ability to think strategically and make decisions with a forward-looking focus, with the ability to assimilate relevant information on a broad range of complex topics;

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

- (4) being a team player with a demonstrated willingness to ask tough questions in a constructive manner that adds to the decision-making process of the Board;
- (5) absence of conflicts of interest;
- (6) ability to devote necessary time to meet director responsibilities; and
- (7) diversity of experience and background.

The Board of Directors actively encourages diversity and inclusion within the Company and is proactively seeking diversity within the senior management team and as part of their succession planning.

Size and structure

Perkins Board of Directors is made up of representatives from key segments and functions within the company. The Board reviews its membership to ensure that it has the right number and composition of members to provide proper overview and direction for the Company.

Effectiveness

Perkins Board members have been given training regarding duties, responsibilities and liabilities of Directors. Members of the Perkins Board also participate in the management of the businesses that are part of the company. As leaders and managers, they are regularly exposed to formal leadership and business-related training. Board members have access to other members of the company's management, and will, from time to time, invite other executives and employees to participate in, or provide information for use at Board meetings so that the Board has additional insight on items or issues to be decided by the Board. The Board may, from time to time, engage outside advisors or other experts as it deems necessary or appropriate to assist it in carrying out its responsibilities.

Director responsibilities

Accountability

The Board of Directors are responsible for:

- reviewing and overseeing the implementation of the Company's strategic plans and objectives;
- overseeing legal and ethical compliance;
- overseeing the integrity of the company's financial statements and the company's financial reporting processes;
- overseeing the company's processes for assessing and managing risks;
- nominating directors, appointing committee members and shaping effective corporate governance; and
- advising and counselling management regarding significant issues facing the company.

Committees

The Board of Directors makes use of internal management and advisors but does not have any formal committees in place that take on responsibilities of the Board. Each Director has been nominated as having responsibility for separate areas of the business such as health and safety, financial reporting and risk.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Integrity of information

The Board relies upon functional organisations within the business to provide complete and accurate information on the performance of the company, so that it can make informed decisions. Specific examples include:

Financial Reporting is managed by a group of accounting and business resource professionals under the leadership of a Senior Business Resource Manager. Detailed financial performance reports are regularly shared with members of the Board.

Operational performance is managed by General Managers who report at least monthly to members of the Board on key performance metrics and issues of strategic importance, including environmental, health and safety performance in facilities, material successes and challenges with key customer and supplier relationships, and quality and capacity issues related to products and services.

A group of Human Resource professionals led by Human Resource Managers maintain employee policies and provide detailed reports on employee engagement and workforce data to members of the Board on a regular basis.

Opportunity and risk

Opportunity

At the heart of our enterprise strategy is the Operating and Execution (O&E) Model, a strategic framework to identify areas of the business that either create or consume the most value. Using the O&E Model as a guide, we gain a deeper understanding of where we have a competitive advantage, which is key to generating high returns. As a result, we allocate resources to those areas of our business that create or have the potential to create the most growth or improvement. This allows us to make swift, strategic choices so that we prioritise business opportunities with the greatest value.

Risk

The leadership team at Perkins participates in an annual risk assessment process, led by risk experts within the larger Caterpillar enterprise, to identify risks that are unique to the businesses within the Perkins companies. After evaluating and identifying risks, risk owners are named and tasked with understanding the risks and putting appropriate measures in place to mitigate the key risks. Risk owners report to members of the Board on a regular basis.

Additionally, Perkins benefits from organisational resources dedicated to compliance and controls, led by Division Compliance Managers, who report regularly to members of the Board. This team maintains an internal compliance web-page which provides training resources and information to employees on issue spotting and clear procedures for reporting compliance issues within the organisation.

Responsibilities

Each member of the Board has been assigned a key area of responsibility and reports back to the Board. There are a number of internal control processes which various members of the Board form part of and that are in place to ensure that the Board meets its obligations.

Remuneration

The Board of Directors are not responsible for setting their own pay. Pay and total reward policies are set at a group level by Caterpillar Inc.

For the more senior positions within the Caterpillar group this is determined by the Caterpillar Inc. Compensation and Human Resources Committee, details of which can be found at:

<https://www.caterpillar.com/en/company/governance/committees-and-charters.html>.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Stakeholder relationships and engagement

External impacts

Manufacturing is a process that unavoidably uses energy - but at Perkins, we're committed to sustainable manufacturing processes that minimise both the energy consumed and the waste produced. In short, sustainable manufacturing is efficient manufacturing.

Sustainability is a core value at Perkins. At each one of our facilities, no effort is spared to drive out wastage and operate an efficient and cost-effective system that uses as little energy as possible, minimises emissions and recycles or reuses waste products wherever we can.

At Perkins, sustainability is our commitment to building a better world. Sustainability is part of who we are and what we do every single day. We recognise progress involves a balance of environmental stewardship, social responsibility and economic growth and consider the same as we work toward a vision of a world in which people's basic needs - such as shelter, clean water, education and reliable energy - are fulfilled. We provide work environments, products, services and solutions that make productive and efficient use of resources as we strive to achieve our vision. We believe this commitment supports the enduring success of our customers, stockholders, dealers and our people.

Stakeholders

Customers and Distributors

Perkins has long maintained a collaborative working relationship with its distributors and customers. Our distributors' expertise and capabilities have made our network a competitive advantage and differentiator for our products and services. We work closely with more than 90 independent distribution companies on everything from product development to aftermarket solutions. We're further strengthening relationships through better prioritisation, integrated planning and quality execution to create more value for our customers.

Our customers are the reason we're in business. Focusing on the end customer has always been and will always be our highest priority. Now, we're intensifying that focus around a rapidly evolving set of customer needs, working to provide different products for different application needs. By investing in areas such as an e-commerce platform and capturing more data to generate insights, we aim to increase customer value and loyalty over the life of our relationship.

We have dedicated account managers who work closely with their customers and we provide regular updates regarding our business and products.

Suppliers

Our suppliers play a key role in our commitment to excellence. We have high standards for quality, delivery, and price.

We recognise the global and increasingly diverse business arena and consistently strive to reflect that environment in our customers, our business practices, and especially, our suppliers.

Our passion for continuous improvement is the driving spirit behind our Supplier Diversity Initiative. Our business growth coupled with diverse product and service offerings, provide sourcing opportunities throughout our organisation to a wide range of business owners. We are committed to helping all of our suppliers understand what it takes to become world-class.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

We hold the highest ethical standards both internally and within our global supply base on the way we conduct business underpinned by our corporate and supplier code of conduct.

We have a dedicated supplier portal that provides transparency to our suppliers on performance requirements, our organisation, and how to begin doing business. The portal also provides the key information that any supplier needs to know regarding requirements, policies, and procedures in the areas of Business Requirements and Regulations, Quality, and Supply Chain.

In addition to the supplier portal, every supplier has a dedicated buyer who partners with them for ease of communication and continuous improvement.

Commitment to communities

We take our responsibility to the various communities in which we work very seriously. We follow a companywide strategy of sustainability and energy efficiency.

But as a company with a philosophy of 'think global, act local', our facilities around the world also support local and regional initiatives in their own areas.

Workforce

Perkins is committed to providing a safe, engaging and productive work environment for its employees. It utilises a variety of means to communicate with employees, including all employee meetings, internal webpages, regular email communications, smaller business group meetings and regular one-on-one meetings between managers and employees. Each of these include the opportunity for employees to provide input and feedback and get answers to questions.

Additionally, the company utilises regular surveys to seek input from employees and engages in reactive action planning based upon survey results. The company provides training and development opportunities to employees to help them grow and benefit from a continuous improvement mentality.

Qualifying third party indemnity provisions

At the time this report is approved, and during the financial year, a qualifying third party indemnity provision was in place for the benefit of one or more of the directors.

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, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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.

Perkins Engines Company Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

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.

Reappointment of auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors after these financial statements were sent to members, or after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

The financial statements on pages 25 to 52 were approved by the Board of Directors on 6 September 2023 and signed on its behalf by:



J Horn
Director

Date: 6 September 2023

Independent auditors' report to the members of Perkins Engines Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Perkins Engines Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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, including 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2022; the Statement of Comprehensive Income and 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and assessing management's paper and cash flow forecasts which support the directors' assessment of the appropriateness of adopting the going concern basis of preparation.

- Considering the nature of the support committed to the company by inspecting the letter written by the company's ultimate parent entity, including considering the period for which the support has been committed.
- Performing independent procedures to assess the likely financial ability of the the company providing the support to be able to honour that support should it be called upon.
- Assessing the appropriateness and completeness of the financial statement disclosures relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2022 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the manipulation of accounting estimates which could be subject to management bias or posting of unusual journals. Audit procedures performed by the engagement team included:

- Enquiring with management, those charged with governance, around actual and potential litigation and claims;
- Understanding and evaluating the key elements of the company's internal control related to estimates;
- Validating the support for accounting estimates and judgements made by management including challenging against possible alternatives and consideration of whether assumptions contain bias;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Reviewing of legal expense accounts and board minutes;
- Substantive testing of journal entries, particularly focused around journals which have unexpected account relationships;
- Incorporating elements of unpredictability; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

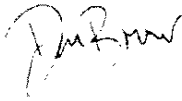
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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.



Daniel Brew (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
7 September 2023

Perkins Engines Company Limited

Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Turnover	5	1,722,501	1,318,034
Cost of sales		<u>(1,406,059)</u>	<u>(1,043,012)</u>
Gross profit		316,442	275,022
Distribution costs		(84,930)	(71,443)
Administrative expenses		(334,715)	(298,118)
Other operating income	9	<u>18,834</u>	<u>13,774</u>
Operating loss	10	(84,369)	(80,765)
Interest receivable and similar income	11	721	394
Interest payable and similar expenses	12	<u>(6,131)</u>	<u>(616)</u>
Loss before tax		(89,779)	(80,987)
Tax on loss	13	<u>3,500</u>	<u>21,763</u>
Loss for the financial year		<u>(86,279)</u>	<u>(59,224)</u>
Total comprehensive expense for the year		<u>(86,279)</u>	<u>(59,224)</u>

The above results were derived from continuing operations.

Perkins Engines Company Limited
(Registration number: 02089227)
Balance Sheet as at 31 December 2022

	Note	2022 £ 000	2021 £ 000
Fixed assets			
Intangible assets	14	37,137	39,710
Tangible assets	15	155,583	160,611
Investments	16	84,376	84,376
		<u>277,096</u>	<u>284,697</u>
Current assets			
Stocks	17	283,019	243,710
Debtors	18	447,195	399,039
Cash at bank and in hand		5,653	34,489
		<u>735,867</u>	<u>677,238</u>
Creditors: Amounts falling due within one year	19	<u>(715,458)</u>	<u>(617,644)</u>
Net current assets		<u>20,409</u>	<u>59,594</u>
Total assets less current liabilities		297,505	344,291
Provisions for liabilities	20	<u>(201,507)</u>	<u>(164,934)</u>
Net assets		<u>95,998</u>	<u>179,357</u>
Capital and reserves			
Called up share capital	24	768,945	768,945
Accumulated losses		<u>(672,947)</u>	<u>(589,588)</u>
Total equity		<u>95,998</u>	<u>179,357</u>

The financial statements on pages 25 to 52 were authorised for issue by the Board of directors and signed on its behalf by:



.....
J Horn
Director

Date: 6 September 2023

Perkins Engines Company Limited

Statement of Changes in Equity for the Year Ended 31 December 2022

	Note	Called up share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2021		768,945	(533,314)	235,631
Loss for the year		-	(59,224)	(59,224)
Total comprehensive expense		-	(59,224)	(59,224)
Share based payment transactions	21	-	2,950	2,950
At 31 December 2021		<u>768,945</u>	<u>(589,588)</u>	<u>179,357</u>
	Note	Called up share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2022		768,945	(589,588)	179,357
Loss for the year		-	(86,279)	(86,279)
Total comprehensive expense		-	(86,279)	(86,279)
Share based payment transactions	21	-	2,920	2,920
At 31 December 2022		<u>768,945</u>	<u>(672,947)</u>	<u>95,998</u>

The notes on pages 28 to 52 form an integral part of these financial statements.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 General information

The company is a private company limited by shares, incorporated in United Kingdom and registered in England.

The address of its registered office is:

Eastfield
Frank Perkins Way
Peterborough
PE1 5FQ

The principal activities of the company is the design, manufacture and sale of diesel engines.

2 Statement of compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Companies Act 2006.

3 Accounting policies

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.

Basis of preparation

These financial statements are prepared on a going concern basis under the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The preparation of financial statements, in compliance with FRS 102, requires the use of certain critical accounting estimates. It also requires management to exercise judgement in 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.

All amounts in £000 unless otherwise stated.

Group financial statements

The company is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006 and section 9 paragraph 3 of the Financial Reporting Standard 102.

These financial statements are the company's separate financial statements presenting information about the company as an individual undertaking and not about its consolidated group.

The financial statements of Perkins Engines Company Limited are included in the consolidated financial statements of Caterpillar Inc., the ultimate parent undertaking and the smallest and largest group to consolidate these accounts.

The financial statements of Caterpillar Inc. may be obtained from the Company Secretary, 5205 N O'Connor Blvd Step 100, Irving, TX 75039, USA.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Caterpillar Inc. as at 31 December 2022 and these financial statements may be obtained from the Secretary at Caterpillar Inc., 5205 N O'Connor Blvd Step 100, Irving, TX 75039, USA.

Going concern

In assessing the appropriateness of the going concern basis of preparation the directors have reviewed detailed cash flow forecasts over the going concern period of review which runs to 31 December 2024, considering reasonably anticipated scenarios in relation to revenue and costs, including a severe but plausible scenario. Based on these cashflow forecasts the company can meet its liabilities as they become due.

The company meets its day-to-day working capital requirements through intercompany cash pooling / funding arrangements. This provides the company access to the cashflows necessary for the day-to-day running of the company, and to support the going concern assertion.

The company has obtained a letter of support from Caterpillar Inc. that confirms the availability of funding necessary to enable Perkins Engines Company Limited to continue in existence as a going concern to meet its liabilities as they fall due and to carry on its business for at least 12 months from the date of the approval of these financial statements.

As reported above, the company is part of the Caterpillar Inc. group's cash pooling/funding arrangements and the going concern assessment for Perkins Engines Company Limited is linked to the financial strength of Caterpillar Inc., the ultimate parent undertaking. From a liquidity perspective Caterpillar Inc. ended the second quarter of 2023 with \$7.4 billion of cash and available global credit facilities of more than \$8.6 billion. Having considered the liquidity forecasts of Caterpillar Inc, the directors are satisfied that it has sufficient ability to honour the support confirmed to the company should it be called upon.

Considering all the above, the directors have a reasonable expectation that the company has adequate financial and other resources to continue in operation for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Turnover

Turnover reported within these financial statements relates to the sale of diesel engines and related parts.

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

Turnover is only recognised when:

- the company has transferred the significant risks and rewards of ownership to the buyer;

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- Non-affiliated customers; and
- Affiliated customers within the EU and US markets.

An engine and an after treatment system are required to meet the relevant emissions regulations and performance obligations for the sale of the Tier 4 compliant engine. Therefore for Turnover to be reported by the company, the engine must be supplied to the customer with a matching aftertreatment component in addition to the four points detailed above when Turnover is recognised by the company.

Employee benefits

The company provides a range of benefits to employees, including paid sickness and holiday arrangements, defined contribution pension plans and an annual bonus.

Short term benefits

Short term benefits including holiday and sickness pay are recognised as an expense in the period in which the cost is incurred. An annual bonus is not guaranteed and is only paid if pre-set triggers are achieved. If paid, the cost of this is recognised as an expense in the year it relates to.

Long term benefits

Employees are given the option to join the Caterpillar (U.K.) Limited defined contribution pension plan. The company pays a fixed contribution into the plan, which is recognised as an expense in the period in which the cost is incurred. Employees are also eligible to become a member of the Approved Employee Share Ownership Plan and Employee Investment Plan. See the Share Based Payments accounting policy and the Pensions accounting policies for more information.

Share based payments

Where Caterpillar Inc. equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to wages, within profit or loss over the vesting period, offset with a credit entry to retained earnings, reported in the statement of changes in equity. When shares are exercised the difference between the grant and exercise value is charged to wages and credited to intercompany payables with Caterpillar Inc.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme). Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

The company has no cash settled share based payments. More details can be found in the Caterpillar Inc. consolidated financial statements, which are publicly available from the Company Secretary and the Caterpillar Inc. website.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Defined contribution pension plan

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Group defined benefit pension plan

The company is a participating employer of Caterpillar (U.K.) Limited defined benefit pension plan. Disclosure regarding this defined benefit pension plan are within the financial statements of Caterpillar (U.K.) Limited.

Perkins Engines Company Limited accounts for the defined benefit pension plan as a defined contribution scheme.

The defined benefit pension plan closed for future accrual on 31 December 2019 and therefore the plan has no active employees. The company receives a charge for the continuing administration of the defined benefit plan from Caterpillar (U.K.) Limited.

Royalties receivable

Royalties are receivable based on the use of the Perkins trademark by fellow group companies. This is based on a percentage of sales into domestic markets and is recognised as income in the year of sale.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Finance leases: Lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Operating leases: Lessee

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Operating leases: Lessor - uncertified engines

The company manufactures prototype engines which are sold to customers uncertified for field testing. Emission regulations require the company to retain ownership of these engines until they are up-certified or destroyed, within 24 months from sale so these engines are classified as operating leases.

Income

85% of the full cost of the engine is invoiced when the engine is dispatched for field testing. Income is credited to profit or loss on a straight line basis over the term of the lease, which is set at 24 months. The remaining 15% is invoiced and recognised if the engine becomes up-certified.

Cost

The cost of the engine is reported within finished goods stock. The value carried for each engine is reviewed each year and stated at lower of cost and net realisable value. Any impairment is charged to research and development, within profit or loss.

Research and development

Research and development expenditure is expensed in the year in which it is incurred.

Foreign currency

Functional and presentation currency

The company's functional and presentation currency is pounds sterling.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency at the spot exchange rate on the day of the transaction and then retranslated to a monthly FX Peg Rate, which is set by the Corporate Risk Management Team.

This monthly rate is used to translate foreign currency transactions to the company's functional currency in the following month.

At period end, foreign currency monetary items in the balance sheet are revalued using the month end rate advised by the Corporate Risk Management Team, that is applicable for that month. Non-monetary items in the balance sheet are measured at historical cost, translated using the FX Peg Rate applicable at the date of the transaction. They are not revalued.

Foreign exchange gains and losses, resulting from the settlement of transactions, and from the revaluation of foreign currency monetary assets and liabilities, are recognised in profit or loss within administrative expenses.

Interest receivable and similar income

Interest income is recognised in the profit or loss using the effective interest method.

Interest payable and similar expenses

Interest payable is charged to profit and loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated financial instrument.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Tax

Tax is recognised in profit or loss, except that a charge attributable to an item of income and expense is recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- a) The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities other future taxable profits; and
- b) Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

These financial statements include a benefit, netted against research and development, within administrative expenses, relating to the prior year, based on the company's election to adopt the UK's Research and Development Expenditure Credit (RDEC) Scheme.

Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

At each reporting date the directors assesses whether there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Any impairment charged or reversed in the year will be recognised in profit or loss within cost of sales.

Amortisation

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Amortisation is charged to profit or loss within cost of sales.

Asset class	Amortisation method and rate
Software	Straight line between 3 & 7 years
Know-how	Fully amortised
Intellectual property	Straight line over 5 years

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Depreciation is charged to profit or loss within cost of sales

Asset class	Depreciation method and rate
Land and buildings	Straight line 3% property
Plant and machinery	Straight line 10 - 16.66%
Furniture and fittings	Straight line 10 - 16.66%
Capital in progress	Not depreciated until put in use
Production tooling	Straight line 20%

Land is not depreciated.

Investments

Investments reported within these financial statements include subsidiaries investments and other investments. Other investments are those where holdings are less than 20% of the nominal value of share capital. Both of these are measured at cost less provision for accumulated impairment.

The company undertakes an annual assessment of the subsidiaries where it has investments, to determine if there is an indication that an investment may be impaired. If any such indication exists, the company will estimate the recoverable amount of the asset. The recoverable amount is determined by calculating the higher of the fair value less costs to sell and the value in use. Value in use is defined as the present value of the future cashflows. These cashflows 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 value is lower than the investment value then an impairment is required and the investment value is adjusted to the recoverable value and charged to the profit and loss account. An impairment to the subsidiary can be reversed if there is evidence of an improvement in the performance of the company and cashflows on a continuing basis.

Impairment charges or reversals are included within profit or loss within cost of sales and or administrative expenses.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis and includes work in progress and finished goods, including labour and attributable overheads (based on normal operating costs and capacity).

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss. If the value of an impaired item increases in a later period, some, or all of the impairment will be reversed back to the profit or loss.

Impairment of stock is charged to profit or loss within cost of sales.

Financial instruments

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

Financial assets

Financial assets

Basic financial assets, including trade receivables, amounts owed by group undertakings, other receivables, and 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.

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.

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 a 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 been previously recognised. The impairment reversal is recognised in profit or loss.

Financial liabilities

Basic financial liabilities, including trade and other payables, and loans from fellow group companies, 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.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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 the liability, simultaneously.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Cash pooling / cash funding

The company is part of the Caterpillar Inc. group's cash pooling / funding arrangements. This is administered by Caterpillar Corporate Treasury, who ensure the company receives the funds it requires in order to meet its obligations.

Receipts and payments between fellow group companies are transacted via the intercompany loan accounts. Any other receipts and payments are transacted through the company bank accounts.

The balances of these accounts are then transferred to the bank account of Caterpillar UK Holdings Limited (the Counterparty) on a daily basis. This enables the funds to be utilised by the Corporate Treasury function in the wider Caterpillar Inc. group.

The company has an intercompany loan agreement with Caterpillar UK Holdings Limited. This agreement may be terminated by either party upon 30 days advance written notice to the other party. Upon termination, the borrower shall pay the principal amount outstanding under the loan with accrued interest, unless otherwise agreed among the parties.

The current limit of the loan agreement is £400,000,000, but this can be increased as required by any party on demand basis. During the year the maximum amount borrowed was £413,991,000 (2021 - £188,128,000).

Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in profit or loss in the same period as the related expenditure.

Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

Deferred tax

See the Tax accounting policy for the details related to deferred tax.

Share capital

Ordinary shares are classified as equity.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Accounting policies (continued)

Contingencies

Contingent liabilities arise as a result of past events when it is probable there will be an outflow of resources but the amount cannot be reliably measured at the reporting date, or when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control.

Contingent liabilities are disclosed in the financial statements unless the probability of outflow is remote.

They are recognised in the financial statements as a provision / creditor if considered probable.

4 Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires the company to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

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.

Judgements

Tangible fixed assets

Depreciation is provided so as to write down the assets to their residual values over their estimated useful life. This selection requires the exercise of management judgement. Management reviewed the assets and made a judgement that the carrying value of these was achievable so made the decision that no impairment was required.

The company uses judgement when assessing the value and progress of capital in progress. These assets are accounted for at cost. When the asset is ready for use as intended it is placed in to service.

Investment impairment

An annual review of the carrying value of the investments in subsidiaries has taken place, which involved assessing each subsidiaries net assets, along with management's knowledge of the business and its future plans, to establish whether there is any indication that an asset may be impaired. The outcome of this review resulted in the decision that no impairment charge was required for 2022.

Transfer pricing

The company is counterparty to a number of transfer pricing arrangements with other Group companies in respect of various services, physical goods transactions, and other activities provided within the Caterpillar Inc. group.

The directors have assessed these arrangements and concluded that they reflect the commercial substance of the associated transactions, are transacted at arm's length and reflect appropriate remuneration for the functions, assets and risks assumed by the company and the transfer pricing counter party, and have been correctly calculated in accordance with the transfer pricing arrangements.

Warranty

The company has made a judgement that a provision for warranty should be included within these financial statements to represent possible future settlements required to be made to customers relating to any faults found within the products it has manufactured and sold to them during the year and in prior years.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

4 Critical accounting judgements and estimation uncertainty (continued)

Defined benefit pension plan

The company is a participating employer of the Caterpillar Pension Plan. In the judgement of the directors, the company does not have sufficient information on plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore, the plan is accounted for as a defined contribution plan.

Deferred tax

The company has made a judgement that a deferred tax asset should be included within these financial statements based on the assessment that it is probable that it would be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Key sources of estimation uncertainty

Intangible fixed assets

The company estimates the useful life and residual values of intangible fixed assets and calculates appropriate amortisation on these, on a straight line basis across the life of the asset, by an asset by asset basis. This is done to ensure that the net book value of intangible fixed assets within these financial statements is reported at realistic carrying values.

Tangible fixed assets

The company estimates the useful life and residual values of tangible fixed assets and calculates appropriate depreciation on these, using the basis described in the accounting policies, across the life of the asset, by an asset by asset basis. This is done to ensure that the net book value of tangible fixed assets within these financial statements is reported at realistic carrying values.

The annual depreciation charge applied to tangible fixed assets is sensitive to changes in the estimated useful life of the asset. These are reviewed when a 'triggering event' occurs and amended where necessary to reflect the current estimates based on technological advancement, future investments, economic utilisation and the physical condition of the asset.

In addition, the company has used estimates in analysing whether the operating assets of the business (both tangible and intangible) are impaired, through the use of a discounted cash flow model. This has involved several judgements and estimates including discount rates, future growth rates, future operating cash flows and the potential impact of climate change on sales in certain territories into which the company sells.

Warranty

The company makes provisions relating to warranty as described in note 20. In assessing potential warranty claims the company has identified a specific engine technical capability issue on a certain small engine field population that the company assumed through an acquisition in 2019. The provision is based on the field population potentially impacted and the cost of time and materials to provide a remediation to the issue. The range of potential outcomes has been assessed as between £34,000,000 to £76,000,000 as the final remediation solution has not been finalized as the technical viability of the fix is still uncertain. Management's current best estimate is £64,817,000 and in estimating the provision the company has considered historical take up rates in relation to warranty issues. See note 20 for more details.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

5 Turnover

The analysis of the company's turnover for the year is as follows:

	2022	2021
	£ 000	£ 000
Sale of goods	<u>1,722,501</u>	<u>1,318,034</u>

The analysis of the company's turnover for the year by destination market is as follows:

	2022	2021
	£ 000	£ 000
United Kingdom	220,739	166,441
Rest of Europe	518,985	410,807
North America	240,247	171,856
Rest of World	<u>742,530</u>	<u>568,930</u>
	<u>1,722,501</u>	<u>1,318,034</u>

6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2022	2021
	£ 000	£ 000
Wages and salaries	173,256	156,513
Share-based payment expenses	2,920	2,950
Social security costs	19,807	16,712
Other pension costs, defined contribution scheme	15,649	13,786
Other pension costs, defined benefit scheme	<u>413</u>	<u>478</u>
	<u>212,045</u>	<u>190,439</u>

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

	2022	2021
	No.	No.
Production	1,382	1,136
Administration and support	<u>1,656</u>	<u>1,574</u>
	<u>3,038</u>	<u>2,710</u>

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

7 Directors' remuneration

Directors' remuneration relates to 4 directors (2021 - 4).

The remaining 2 directors (2021 - 2 directors) are remunerated by fellow group companies in their capacity as executives in these companies, as their services to this entity are incidental to their services to the group nor will any amounts become payable for their historic services to the company.

The directors' remuneration for the year was as follows:

	2022	2021
	£ 000	£ 000
Remuneration	1,367	1,325
Contributions paid to defined contribution pension schemes	112	110
	1,479	1,435

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2022	2021
	No.	No.
Exercised share options	4	4
Accruing benefits under defined benefit pension scheme	2	2
Accruing benefits under defined contribution pension scheme	4	4
	4	4

In respect of the highest paid director:

	2022	2021
	£ 000	£ 000
Remuneration	447	409
Company contributions to defined contribution pension schemes	26	23
	26	23

8 Auditors' remuneration

	2022	2021
	£ 000	£ 000
Fees payable to the company's auditors and associates for the audit of the company's annual financial statements	331	311
	331	311

The company also paid £60,000 (2021 - £80,000) to the company's auditors and its associates for the audit of certain fellow group companies.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2022	2021
	£ 000	£ 000
Royalties receivable	18,743	14,621
Government grants	91	94
Miscellaneous other operating (expense)	-	(941)
	18,834	13,774

10 Operating loss

Arrived at after charging/(crediting):

	2022	2021
	£ 000	£ 000
Depreciation expense	21,339	22,084
Amortisation expense	9,743	8,633
Foreign exchange losses/(gains)	11,140	(3,528)
Operating lease expense - other	991	1,865
Loss/(profit) on disposal of tangible fixed assets	268	(130)
	268	(130)

The company also spent a total £61,709,000 (2021 - £68,538,000) on research and development. This value is net of the UK's research and development expenditure tax credit and recharges to fellow group companies.

Recharges to fellow group companies relating to R&D totalled £55,911,000 (2021 - £35,740,000).

11 Interest receivable and similar income

	2022	2021
	£ 000	£ 000
Interest receivable from group undertakings	196	26
Other interest receivable	525	368
	721	394

12 Interest payable and similar expenses

	2022	2021
	£ 000	£ 000
Other interest payable	403	-
Interest payable to group undertakings	5,728	616
	6,131	616

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

13 Tax on loss

Tax credited in the Statement of Comprehensive Income:

	2022	2021
	£ 000	£ 000
Current taxation		
UK corporation tax	(23,457)	(12,043)
UK corporation tax adjustment in respect of prior years	<u>(1,155)</u>	<u>(82)</u>
	(24,612)	(12,125)
Foreign tax	<u>1,927</u>	<u>1,744</u>
Total current tax	<u>(22,685)</u>	<u>(10,381)</u>
Deferred taxation		
Origination and reversal of timing differences	6,377	(3,389)
Changes in tax rates and laws	2,014	(8,033)
Deferred tax adjustments in respect of prior years	<u>10,794</u>	<u>40</u>
Total deferred taxation	<u>19,185</u>	<u>(11,382)</u>
Tax credit in the Statement of Comprehensive Income	<u>(3,500)</u>	<u>(21,763)</u>

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022	2021
	£ 000	£ 000
Loss before tax	<u>(89,779)</u>	<u>(80,987)</u>
Loss before tax multiplied by standard rate of corporation tax in the UK.	(17,058)	(15,388)
Expenses not deductible for tax purposes	1,337	1,246
Income not taxable	(995)	(973)
Effect of overseas tax rates	1,563	1,427
Adjustments to tax charge in respect of prior years	9,639	(42)
Tax rate changes	<u>2,014</u>	<u>(8,033)</u>
Total tax credit	<u>(3,500)</u>	<u>(21,763)</u>

Factors that may affect future tax charges

The company's profit for accounting year ended 31 December 2022 was taxed at a rate of 19% (2021: 19%).

Finance Act 2021 (FA 2021) included an increase in the main rate of corporation tax from 19% to 25% with effect from the financial year beginning 1 April 2023. As the increase was enacted prior to the balance sheet date deferred tax balances have been measured at a rate of 25%.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Intangible assets

	Know-how £ 000	Intellectual property (IP) £ 000	Software £ 000	Total £ 000
Cost				
At 1 January 2022	339,656	27,106	32,111	398,873
Additions acquired separately	-	-	7,373	7,373
Disposals	-	-	(203)	(203)
At 31 December 2022	<u>339,656</u>	<u>27,106</u>	<u>39,281</u>	<u>406,043</u>
Accumulated amortisation				
At 1 January 2022	339,656	9,487	10,020	359,163
Amortisation charge	-	5,421	4,322	9,743
At 31 December 2022	<u>339,656</u>	<u>14,908</u>	<u>14,342</u>	<u>368,906</u>
Net book value				
At 31 December 2022	<u>-</u>	<u>12,198</u>	<u>24,939</u>	<u>37,137</u>
At 31 December 2021	<u>-</u>	<u>17,619</u>	<u>22,091</u>	<u>39,710</u>

The software values reported above include £10,785,000 (2021 - £6,402,000) of assets that have not been put into use, thus are not being amortised.

Individually material intangible assets

Intellectual property

The carrying amount of this asset is £12,198,000 (2021 -£17,619,000) and the remaining amortisation period is 2 Years, 3 Months (2021 - 3 Years, 3 Months).

Impairment

Management performed an impairment indicator assessment and concluded that an impairment indicator exists. An impairment assessment was conducted and management concluded that no impairment was required.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 Tangible assets

	Land and buildings £ 000	Plant & Machinery £ 000	Furniture and fittings £ 000	Capital in progress £ 000	Production tooling £ 000	Total £ 000
Cost						
At 1 January 2022	123,066	262,939	15,627	10,480	82,635	494,747
Additions	916	3,372	221	13,376	3,196	21,081
Disposals	(3,278)	(12,375)	(1,226)	(2)	(3,172)	(20,053)
Transfers	1,170	3,255	516	(8,436)	3,495	-
At 31 December 2022	<u>121,874</u>	<u>257,191</u>	<u>15,138</u>	<u>15,418</u>	<u>86,154</u>	<u>495,775</u>
Accumulated depreciation						
At 1 January 2022	47,067	212,100	8,053	-	66,916	334,136
Charge for the year	3,265	8,496	1,604	-	7,974	21,339
Eliminated on disposal	(1,268)	(11,137)	(1,746)	-	(1,132)	(15,283)
At 31 December 2022	<u>49,064</u>	<u>209,459</u>	<u>7,911</u>	<u>-</u>	<u>73,758</u>	<u>340,192</u>
Net book value						
At 31 December 2022	<u>72,810</u>	<u>47,732</u>	<u>7,227</u>	<u>15,418</u>	<u>12,396</u>	<u>155,583</u>
At 31 December 2021	<u>75,999</u>	<u>50,839</u>	<u>7,574</u>	<u>10,480</u>	<u>15,719</u>	<u>160,611</u>

Included within Land and buildings is land with a value of £8,906,000 (2021 - £8,906,000) and £Nil (2021 - £Nil) in respect of long leasehold land and buildings.

Included within the depreciation charge for the year is £128,000 (2021 - £128,000) relating to depreciation on assets held under finance leases and all these leases are within the 50 year period.

Impairment

Management performed an impairment indicator assessment and concluded that an impairment indicator exists. An impairment assessment was conducted and management concluded that no impairment was required.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 Tangible assets (continued)

Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2022	2021
	£ 000	£ 000
Furniture, fittings and equipment	1,471	1,599

16 Investments

	£ 000
Cost or valuation	
At 1 January 2022	84,376
At 31 December 2022	84,376
Carrying amount	
At 31 December 2022	84,376
At 31 December 2021	84,376

Management has completed a review of any impairment indicators and concluded that there were no indicators that will result in any impairment of the Investments held.

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

* denotes direct holding.

Details of undertakings

Undertaking	Registered office	Class of shares	Holdings 2022	Holdings 2021
Subsidiary undertakings				
Perkins Group Limited*	Eastfield, Frank Perkins Way, Peterborough, PE1 5FQ England	Ordinary	100%	100%
Perkins Engines Asia Pacific PTE Limited	7 Tractor Road, Singapore 627968 Singapore	Ordinary	100%	100%
Perkins Small Engines Limited	Eastfield, Frank Perkins Way, Peterborough, PE1 5FQ England	Ordinary	100%	100%

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Investments (continued)

Undertaking	Registered office	Class of shares	Holdings 2022	Holdings 2021
Perkins Engines Group Limited	Eastfield, Frank Perkins Way, Peterborough, PE1 5FQ England	Ordinary	99.19%	99.19%
Perkins Limited	Eastfield, Frank Perkins Way, Peterborough, PE1 5FQ England	Ordinary	99.99%	99%
Perkins India Private Limited	7th Floor, International Tech Park, Teramani Road, Teramani, Chennai IN 600 113, India India	Ordinary	99.99%	99.99%
FG Wilson (Engineering) Limited	Eastfield, Peterborough GB PE1 5FQ England	Ordinary	99%	100%
Other investments				
F. Perkins Limited	Eastfield, Frank Perkins Way, Peterborough, PE1 5FQ England	Ordinary	2.4%	2.4%
M.O.P.E.S.A Motores Power S.A	Antigo Camino a San Lorenzo 295, Toluca, Edo. de MX 50010 Mexico	Ordinary	18%	18%
Perkins Motores do Brasil Ltda	Rua Joao Che de 2489 CIC, Curitiba, BR 81170-220 Brazil	Ordinary	0.01%	0.01%

The other investments listed above relate to companies that Perkins Engines Company Limited own a holding of less than 20%.

17 Stocks

	2022 £ 000	2021 £ 000
Raw materials and consumables	133,373	128,225
Work in progress	28,448	13,288
Finished goods and goods for resale	121,198	102,197
	<u>283,019</u>	<u>243,710</u>

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Stocks (continued)

Impairment of stocks

The amount of impairment loss/(gain) included in profit or loss is £6,609,000 (2021 - £(553,000)).

The carrying value of finished goods and goods for resale has been reduced by £540,000 (2021 - £2,311,000) to enable reporting of stock at the net realisable value.

18 Debtors

	Note	2022 £ 000	2021 £ 000
Trade debtors		193,458	176,312
Amounts owed by group undertakings		161,053	135,136
Other debtors		13,834	8,727
Tax recoverable	13	60,177	41,011
Deferred tax	13	14,287	33,472
Prepayments and accrued income		<u>4,386</u>	<u>4,381</u>
		447,195	399,039
Less non-current portion		<u>-</u>	<u>(33,472)</u>
		<u>447,195</u>	<u>365,567</u>

Non-current debtors

£Nil (2021 - £33,472,000) of deferred tax reported above is classified as non-current.

Current debtors

All other amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Corporation tax is expected to be settled through group relief.

Deferred tax

	2022 £ 000	2021 £ 000	2020 £ 000
Accelerated capital allowances	4,383	9,235	3,580
Tax losses	<u>9,904</u>	<u>24,237</u>	<u>18,510</u>
	<u>14,287</u>	<u>33,472</u>	<u>22,090</u>

The deferred tax asset recoverable within 12 months is £14,287,000 (2021 - £nil recoverable within 12 months).

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Creditors: Amounts falling due within one year

	2022	2021
	£ 000	£ 000
Trade creditors	235,928	220,677
Amounts owed to group undertakings	303,963	255,801
Amounts due in respect of factored debts	128,895	97,501
Other taxation and social security	1,837	1,683
Other creditors	3,102	2,232
Accruals and deferred income	41,733	39,750
	715,458	617,644

Amounts owed to group undertakings include £232,062,000 (2021 - £182,924,000) that is unsecured, repayable by mutual agreement and bears interest calculated monthly on the average daily balance outstanding at 0.5% per annum over the market rate published by Corporate Treasury on the first business day of the month. This agreement may be terminated by either party upon 30 days advance written notice to the other party. Upon termination, the borrower shall pay the principal amount outstanding under the loan with accrued interest, unless otherwise agreed among the parties.

All other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

20 Provisions for liabilities

	3 & 4 Cylinder Warranties	Other Warranties	Total
	£ 000	£ 000	£ 000
At 1 January 2022	64,817	100,117	164,934
Increase in existing provisions	-	92,401	92,401
Provisions utilised	-	(55,828)	(55,828)
At 31 December 2022	64,817	136,690	201,507

3 & 4 Cylinder Warranties

In assessing potential warranty claims the company identified a specific engine capability issue which resulted in the 3 & 4 Cylinder Warranty provision being established. This provision is based on the field population potentially impacted and the cost of time and materials to provide a remediation to the issue. The technical viability of the fix is still uncertain, so this provision has been calculated based on the company's historic take up rates in relation to warranty issues.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

20 Provisions for liabilities (continued)

Other Warranties

Warranties over the company's products typically cover two years. The provision is made for the likely cost of after-sales support which is based on 6 years historical data and any specific warranty issues which arise. Using the profile for 2021 and 2022 product sales, combined with the fact that the typical warranty period is two years, it is expected that approximately 80% of the warranty provision at the year end will be utilised within two years and with 30% within one year which is consistent with the prior year maturity profile.

21 Share-based payments

Some of the company's senior employees participate in share based payment plans operated by the ultimate parent company, Caterpillar Inc. The plans primarily provide for the granting of stock options (shares) and stock-settled stock appreciation rights (SARs), performance-based restricted stock units (PRSU) and restricted stock units (RSUs).

Stock options permit a holder to buy Caterpillar Inc. stock at the stock's price when the option was granted. SARs permit a holder the right to receive the value in shares of the appreciation in Caterpillar Inc. stock that occurred from the date the right was granted up to the date of exercise. A restricted stock unit (RSU) is an agreement to issue shares of Caterpillar Inc. stock at the time of vesting. PRSUs are similar to RSUs and include performance conditions in the vesting terms of the award.

The award approval process specifies the grant date, value and terms of the award. The same terms and conditions are consistently applied to all employee grants, including Officers. The Committee approves all individual Officer grants. The number of stock-based compensation award units included in an individual's award is determined based on the methodology approved by the Committee. The exercise price methodology approved by the Committee is the closing price of the Company stock on the date of the grant.

Stock option and RSU awards generally vest according to a three-year graded vesting schedule. One-third of the award will become vested on the first anniversary of the grant date, one-third of the award will become vested on the second anniversary of the grant date and one-third of the award will become vested on the third anniversary of the grant date. PRSU awards generally have a three-year performance period and cliff vest at the end of the period based upon achievement of performance targets established at the time of grant.

Upon separation from service, if a participant is 55 years of age or older with more than five years service, the participant meets criteria for Long Service Separation. Award terms for stock option and RSU grants allow for continued vesting as of each vesting date specified in the award document for employees who meet the criteria for a "Long Service Separation" and fulfil a requisite service period of six months. At grant, SARs and options awards have a term life of ten years. For awards granted prior to 2016, if the Long Service Separation criteria are met, the vested options/SARs have a life that is lesser than ten years from the original grant date.

FRS 102 requires companies to estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The fair value of the grant has been estimated using a lattice based option-pricing model. The model considers a range of assumptions related to volatility, risk-free interest rate and historical employee behaviour. Expected volatility was based on historical and current implied volatilities from traded options on Caterpillar Inc.'s stock. The risk-free rate was based on US Treasury security yields at the time of grant. The dividend yield was based on historical information. The expected life is the average expected period to exercise and was determined from the lattice based model. The lattice based model incorporated exercise and post vesting forfeiture assumptions based on analysis of historical data.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

21 Share-based payments (continued)

From 2018, RSU and PRSU awards are credited with dividend equivalent units on each date that a cash dividend is paid to holders of Caterpillar Inc. common stock. The fair value of the RSU and PRSU grants was determined as the closing stock price on the date of the grant. Prior to 2018 the fair value was determined by reducing the stock price on the date of the grant by the present value of the estimated dividends to be paid during the vesting period. The estimated dividends are based on Caterpillar Inc.'s quarterly dividend per share at the time of the grant.

In respect to share based payment arrangements, total charges to profit and loss, reported with wages and salaries were £2,920,000 (2021 - £2,950,000). The directors consider that these amounts are not material and hence no further detailed disclosures have been made.

22 Pension commitments

Defined contribution pension scheme

The company is a member of the Caterpillar (U.K.) Limited defined contribution pension plan.

The defined contribution pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £15,649,000 (2021 - £13,786,000).

Group defined benefit pension plan

The company is a participating employer of the Caterpillar (U.K.) Limited defined benefit pension plan.

The defined benefit scheme is treated as a defined contribution plan as required by the Financial Reporting Standard 102 paragraph 28.11.

The Caterpillar (U.K.) Limited defined benefit pension plan was closed to future member accruals from 31 December 2019.

The company receives a charge for the administration of running the defined benefit plan from Caterpillar (U.K.) Limited. The defined benefit pension plan charge for the year was £413,000 (2021 - £478,000).

The overall defined benefit pension asset of the Caterpillar (U.K.) Limited Defined Benefit Pension Plan, as at 31 December 2022, is £268,474,000 (2021 - £239,952,000). The deferred tax relating to this balance, as at 31 December 2022, was £67,119,000 (2021 - £45,591,000).

Caterpillar (U.K.) Limited is expected to contribute £1,738,000 to its defined benefit pension scheme in 2023.

23 Dividends

The aggregate amount of dividends that were proposed before the date of approval of the accounts for the year ended 31 December 2022 was £Nil (2021 - £Nil).

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

24 Called up share capital

Allotted, called up and fully paid shares

	2022		2021	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	768,945	768,945	768,945	768,945

25 Commitments under operating leases

The total of future minimum lease payments is as follows:

	2022	2021
	£ 000	£ 000
Not later than one year	887	846
Later than one year and not later than five years	2,312	1,784
Later than five years	13,757	13,500
	16,956	16,130

The company has operating lease commitments of £Nil (2021 - £13,000) relating to uncertified engines. £Nil is payable within 12 months (2021 - £13,000).

26 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements, relating to capital expenditure, was £10,963,000 (2021 - £13,960,000).

27 Contingent liabilities

The company has a guarantee relating to an aftermarket parts logistics fee of £Nil (2021 - £Nil).

28 Parent and ultimate parent undertaking

The company's immediate parent is Caterpillar UK Engines Company Limited, incorporated in England.

The ultimate parent and controlling party is Caterpillar Inc., incorporated in United States of America.

The most senior parent entity producing publicly available financial statements is Caterpillar Inc. These financial statements are available upon request from the Secretary at Caterpillar Inc., 5205 N O'Connor Blvd Step 100, Irving, TX 75039, USA.

The financial statements of Perkins Engines Company Limited are included in the consolidated financial statements of Caterpillar Inc., the ultimate parent undertaking and the smallest and largest group to consolidate these financial statements.

Perkins Engines Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 Parent and ultimate parent undertaking (continued)

The financial statements of Caterpillar Inc., may be obtained from The Company Secretary, 5205 N O'Connor Blvd Step 100, Irving, TX 75039, USA.

The parent of the largest group in which these financial statements are consolidated is Caterpillar Inc..

The parent of the smallest group in which these financial statements are consolidated is Caterpillar Inc..