

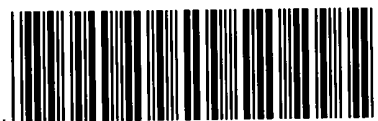
SKF (U.K.) Limited

Annual report and financial statements

Registered number 00107367

31 December 2016

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**CONTENTS**

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**Principal activities**

The principal activity of SKF (U.K.) Limited (the "Company") is that of the manufacture and sale of ball and roller bearings and related services.

Business Review and Future Prospects

The Company's turnover was encouraging throughout the year despite running 5.8% lower than in 2015. A solid profit was delivered during the year but this was 30.5% lower than the previous year as a direct result of lower turnover and the reducing phase out licence fee received from Aktiebolaget SKF, who acquired the right to existing technology from the Company as part of the transfer pricing system implemented by the SKF Group. The Company delivered a strong cash flow and costs remained under good control throughout the year. The Company remains in a strong financial position.

Going forward, the Company sees improving volumes in the industrial business but the market remains challenging. The Company continues its change journey to become more customer driven with process simplicity.

The Company plans to grow its businesses and generate profits in future periods despite the UK electorate's vote to leave the European Union on the 23 June 2016 that has caused a two year period of uncertainty for the UK economy and aerospace, automotive and industrial business markets within which the Company operates.

Key performance indicators

The Company's key financial performance indicator is a simplified, economic value-added model called Total Value Added (TVA). This indicator promotes improved operating profit, working capital reduction and profitable growth. The calculation is operating profit less the pre-tax cost of capital.

Total Value Added (TVA) KPI**£000****2016**

17,128

2015

19,269

Risks and uncertainties in the business

The Company operates in many different industrial and geographical segments that are at different stages of the economic cycle. A general economic downturn at global level, or in one of the world's leading economies, could reduce the demand for the Company's products, solutions and services for a period of time. In addition, terrorism and other hostilities, as well as disturbances in worldwide financial markets, could have a negative effect on the demand for the Company's products and services. There are also political and regulatory risks associated with the wide geographical business. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the Company's operations.

The financial policy defines the main risks as being currency, interest rates, credit and liquidity and establishes responsibility and authority to manage these risks. The policy states that the objective is to minimise risk and to contribute to a better return through the active management of risks. The management of the risks and the responsibility for all treasury operations are centralised at the SKF Treasury Centre, Aktiebolaget SKF's internal bank.

Health, Safety and Environment

The Board takes very seriously the Health, Safety and Environmental issues of the Company. A member of the Board is appointed as Director Representative for Health & Safety. The Board ensures that management systems are in place for effective risk control. The Company has Health & Safety Committees who meet regularly and maintain effective communication with employees.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**Results for the year**

Total sales for the year amounted to £204.7 million (2015 - £217.3 million).

The profit for the financial year after taxation was £16.3 million (2015 - £23.4 million). The Company continues to control spend and operate good pricing policies within the market.

Approved by the board of Directors and signed on its behalf by:



S L Smith
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL
United Kingdom

11 May 2017

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their annual report on the affairs of the Company, together with the audited financial statements and independent auditors' report, for the year ended 31 December 2016.

Directors

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

M R Crean
R J Law
S L Smith
P J Owen

Directors' Indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Dividends

An interim dividend in respect of the year ended 31 December 2016 of £nil (2015: £nil) was paid during the year. The Directors do not recommend payment of a final dividend (2015: £nil).

Subsequent to the year end the Directors have approved an interim ordinary dividend of £30.0 million for the year ended 31 December 2017.

Business review and future developments

The Strategic Report on pages 2-3 provides a review of the business in the year and future developments.

Financial instruments

The Company finances its activities with a combination of cash and short term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. Financial instruments give rise to foreign currency, interest rate, credit, price and liquidity risk. Information on how these risks arise is set out below, as are the objectives, policies and processes for their management.

- The Company is exposed to currency risk through changes in exchange rates in the future flows of payments related to firm commitments and forecasted transactions. For internal trade, currency risk is centralised to SKF Treasury Centre through the SKF Group's internal netting and the Company's participation in the Treasury Invoicing and Netting Application.
- Interest rate risk is defined as the risk of negative fluctuations in the cash flow caused by changes in the interest rates. Liquidity management is concentrated to SKF Treasury Centre, Aktiebolaget SKF's internal bank.
- Credit risk is defined as the Company's exposure to losses in the event that one party to a financial instrument fails to discharge an obligation. The Company is exposed to credit risk from its operating activities and at operational level, the outstanding trade receivables are continuously monitored locally in each area. The Company's concentration of credit risk related to trade receivables is mitigated primarily due to its industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures, in line with the Company's Credit Policy.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**Financial instruments (continued)**

- Price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. Listed investments are exposed to price risk but this exposure is within the Company's risk appetite.
- Liquidity risk, also referred to as funding risk, is defined as the risk that the Company will encounter difficulties in raising funds to meet commitments. SKF Group policy states that the Group, and hence the Company, should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities.

Research and development

During 2016 the Company spent £6.4 million on research and development (2015: £6.5 million).

The Company supports the SKF Group's continued commitment to technology development which is important for maintaining and strengthening technological leadership. The Company undertakes research and development in view of developing new products, particularly associated to sliding contact and alignment products. Alongside the SKF Group, the Company collaborates with the academic community and with renowned universities in establishing SKF University Technology Centres (UTCs). These complement SKF's in-house research, establishing long-term relationships for creating fundamental support and bringing new ideas in technical areas of strategic interest for SKF.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2015: £nil).

Employees

Each Business Unit operates a formal Team Briefing or regular monthly meeting with staff to communicate news and information regarding the development of their Business Unit. Further information is available on the SKF Group Intranet, UK Portal. A meeting takes place three times a year with representatives from the Unite Union. Factory Managers and the Managing Director discuss any matters of Union concern, consult on forthcoming matters and share financial information in relation to the Company. The Factory Managers have regular communications meetings with the union representatives and production employees. Sales Business Unit Heads meet regularly to share and communicate information and feed back to their teams. Total Company results are published internally on a quarterly basis to the Business Units Heads for communication with their teams.

Employees are made aware of any important changes to legislation or matters which will affect them through webex presentations and face to face meetings. Information is then available on the SKF Group Intranet, UK Portal.

To involve staff further in the financial performance of the Company, a Short Term Variable Salary is run which is announced on a year by year basis. This rewards individuals based on the results of the relevant Business Unit and higher Business Unit. A Performance Management Programme is in place, which sets individual targets on an annual basis to support the business. Individual salary reviews are based on achievement of such targets.

Production Workers are part of Union negotiated Collective Agreement and may negotiate an element of business performance related pay award if they wish.

Disabled persons in common with all others are given full consideration in respect of selection, continued employment, training, career development and promotion. Company Policies exist which cover these areas and are available on the SKF Group Intranet, UK Portal.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**Going Concern**

The Company's business activities, together with the factors likely to affect its future development and its financial position, are described in the Strategic Report on pages 2 to 3. The Company's financial risk management objectives, and its exposures to price, credit, liquidity and cash flow risk are described above.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the challenges in the market.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Independent Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Disclosure of information to auditors

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the board of Directors and signed on its behalf by:



S L Smith
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL
United Kingdom

11 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SKF (U.K.) LIMITED**Report on the financial statements****Our Opinion**

In our opinion, SKF (U.K.) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception**Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SKF (U.K.) LIMITED (CONTINUED)**Responsibilities for the financial statements and the audit****Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
10 Bricket Road
St Albans
AL1 3JX

11 May 2017

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Turnover	2	204,693	217,270
Cost of sales		(170,918)	(173,467)
Gross profit		33,775	43,803
Distribution costs		(2,422)	(2,590)
Administrative expenses		(11,851)	(13,047)
Operating profit	3	19,502	28,166
Income from other fixed asset investments		578	86
Other interest receivable and similar expenses	7	96	46
Interest payable and similar expenses	8	(1,306)	(2,260)
Profit before taxation		18,870	26,038
Tax on profit	9	(2,589)	(2,629)
Profit for the financial year		16,281	23,409

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000	2015 £000
Profit for the financial year	16,281	23,409
Other comprehensive (expense)/income		
<i>Items that will not be reclassified to profit or loss:</i>		
Releases from the revaluation reserve on disposal of tangible assets	-	117
Fair value adjustment to investment carrying value	4,145	-
Remeasurements on defined benefit pension plan	(47,855)	23,773
Income tax on items that will not be reclassified to profit or loss	7,347	(4,754)
Other comprehensive (expense)/income for the year, net of income tax	(36,363)	19,136
Total comprehensive (expense)/income for the year	(20,082)	42,545

BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	10	85	100
Tangible assets	11	16,587	15,980
Investments	12	4,976	3,584
		<u>21,648</u>	<u>19,664</u>
Current assets			
Inventory	13	19,010	18,342
Trade and other receivables - including £12,525,000 (2015: £8,202,000) due after one year	14	141,861	125,940
Cash and cash equivalents		1,587	3,411
		<u>162,458</u>	<u>147,693</u>
Creditors: amounts falling due within one year	15	(37,677)	(41,769)
Net current assets		<u>124,781</u>	<u>105,924</u>
Total assets less current liabilities		<u>146,429</u>	<u>125,588</u>
Provisions for liabilities			
Pension liabilities	17	(73,181)	(32,497)
Other provisions		(409)	(170)
		<u>(73,590)</u>	<u>(32,667)</u>
Net assets		<u>72,839</u>	<u>92,921</u>
Capital and reserves			
Called up share capital	18	37,200	37,200
Share premium account		1,114	1,114
Other reserves		919	919
Profit and loss account		33,606	53,688
Total shareholders' funds		<u>72,839</u>	<u>92,921</u>

These financial statements on pages 10 to 37 were approved by the board of Directors on 11 May 2017 and were signed on its behalf by:



S L Smith
Director

11 May 2017

Company registered number: 00107367

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up Share Capital £000	Share Premium Account £000	Other Reserves £000	Profit and Loss Account £000	Total Shareholders' Funds £000
Balance at 1 January 2015	37,200	1,114	1,036	11,143	50,493
Total comprehensive income for the year					
Profit for the financial year	-	-	-	23,409	23,409
Other comprehensive income	-	-	(117)	19,136	19,019
Total comprehensive income for the year	-	-	(117)	42,545	42,428
Balance at 31 December 2015	37,200	1,114	919	53,688	92,921
Balance at 1 January 2016	37,200	1,114	919	53,688	92,921
Total comprehensive expense for the year					
Profit for the financial year	-	-	-	16,281	16,281
Other comprehensive expense	-	-	-	(36,363)	(36,363)
Total comprehensive expense for the year	-	-	-	(20,082)	(20,082)
Balance at 31 December 2016	37,200	1,114	919	33,606	72,839

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**1 ACCOUNTING POLICIES**

SKF (U.K.) Limited (the "Company") is a private company limited by shares. It is incorporated and domiciled in the UK and registered in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and the Companies Act 2006. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company is a wholly-owned subsidiary of Aktiebolaget SKF and is included in the consolidated financial statements of Aktiebolaget SKF which are prepared in accordance with International Financial Reporting Standards, are publicly available and may be obtained from SKF (U.K.) Limited, Sundon Park Road, Luton, Bedfordshire, LU3 3BL. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosure requirements relating to financial instruments.

As the consolidated financial statements of Aktiebolaget SKF include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 *Fair Value Measurement*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors in the application of these accounting policies, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 22.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Measurement convention**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2016.

Going concern

No material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

The Company's business activities, together with the factors likely to effect its future development and position, are set out in the Business Review section of the Strategic Report on page 2. The Company is expected to continue to generate positive cash flow on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currency

Transactions in foreign currency are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other debtors, cash and cash equivalents, and trade and other creditors.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other creditors

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held, in transit and deposits.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Tangible assets**

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of tangible assets have different useful lives, they are accounted for as separate items.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Land is not depreciated. The estimated useful lives are as follows:

- buildings 33 years
- plant and equipment 4 - 20 years

Depreciation methods, useful lives and residual values are subject to annual review.

Business combinations

Subject to the transitional relief in IFRS 1, all unincorporated business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the company.

Intangible assets and goodwill*Research and development*

The Company undertakes research and development expenditure in view of developing new products.

Expenditure in research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the profit and loss account when incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)***Other intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Amortisation

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- patents and trademarks 20 years
- capitalised development costs 3 - 7 years

Amortisation is included in cost of goods sold or administrative expenses depending on where the assets have been used.

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle. Initially raw materials and purchased finished goods are valued at actual purchase costs and work in process and manufactured finished goods are valued at actual production costs. Production costs include direct costs such as material and labour, as well as manufacturing overhead as appropriate. Provision is made for slow moving or obsolete items where appropriate.

Impairment*Financial assets (including trade and other receivables)*

Assets carried at amortised cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)***Non-financial assets*

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as provisions is management's best estimate of the future cash flows necessary to settle the obligations at the balance sheet date, and the timing of settlement is uncertain.

Turnover

The turnover shown in the profit and loss accounts represents amounts invoiced for goods supplied during the period, exclusive of value added tax.

Expenses*Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable using the effective interest method and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest receivable and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses related to other financial assets and liabilities are reported on a net basis.

Exceptional Items

The Company presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in noncurrent liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Employee Benefits*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Employees Benefits (continued)

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans are recognised as expense in the profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any further refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short term variable salary arrangement if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage volunteer redundancies. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

2 Turnover

	2016 £000	2015 £000
Sale of goods	194,160	205,311
Rendering of services	10,533	11,959
Total turnover	<u>204,693</u>	<u>217,270</u>

During the year the Company mainly conducted its business through its business areas: Industrial Sales, Bearing Operations and Business and Product Development. These business areas each focus on specific customer industries representing groups of related industrial and automotive products. The Company serves customers with products, services and solutions in five main markets: bearings, polymer seals, lubrication systems, products and services for asset efficiency, and products for mechanical power transmission. A geographical analysis of turnover, profits and net assets is not provided as the Directors consider that the disclosure of such information would seriously prejudice the interests of the Company.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

3 Operating Profit

This is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation and amounts written off tangible assets	1,674	1,676
Amortisation of intangible assets	15	15
Research and development costs	6,428	6,543
Operating Lease - Minimum lease payments	861	1,701
Auditors remuneration for audit of these financial statements	41	45
Net foreign currency exchange differences	(486)	150
Profit on disposal of tangible asset	5	(406)

Amounts payable to PricewaterhouseCoopers LLP by the Company in respect of audit related assurance services were £nil (2015 - £12,000).

4 Exceptional items

	2016 £000	2015 £000
Recognised in arriving at operating profit from continuing operations:		
Restructuring costs	648	2,915
Gain on disposal of property, plant and equipment	(5)	(406)
	<u>643</u>	<u>2,509</u>

Restructuring costs

During the year the Company incurred costs of £648,000 (2015: £2,915,000) in respect of restructuring costs. These costs are charged to cost of sales £320,000 (2015: £659,000) and administrative expenses £328,000 (2015: £2,256,000) in the Profit and Loss Account. The restructuring programme affected 8 employees, following the decision to close the Spindle Service Centre and to rationalise within the Segments and Vehicle Service Markets.

Gain on disposal of property, plant and equipment

Gains and losses on property, plant and equipment are classified as exceptional on the basis that they arise from transactions to dispose of assets other than at the end of their usual expected lives or at values significantly different to their previously assessed residual. As such, the amounts earned or charged to cost of sales in any given year is not indicative of a trend in financial performance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
5 Staff numbers and costs

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

	Number of employees	
	2016	2015
Production	561	580
Sales and distribution	116	126
Administration	237	248
	914	954

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£000	£000
Wages and salaries	37,444	38,838
Social security costs	3,447	3,685
Other pension costs	5,115	5,636
	46,006	48,159

6 Directors' remuneration

	2016	2015
	£000	£000
Directors' remuneration	928	927
Company contributions to defined contribution pension plan	2	2
Company contributions to defined benefit pension plans	98	95

The emoluments of the highest paid director were £451,791 (2015:£465,243). There were no payments made under long term incentive schemes during the year (2015:£nil). No company pension contributions were made on his behalf (2015:£nil), and the accrued pension benefit at the end of the year was £nil (2015:£nil). No shares were receivable under a long term incentive scheme (2015:£nil).

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Defined contribution pension plan	1	1
Defined benefit pension plans	2	2
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
7 Other interest receivable and similar income

	2016 £000	2015 £000
Net foreign exchange (loss)/gain	(24)	37
Other interest	120	9
Total interest receivable and similar income	<u>96</u>	<u>46</u>

8 Interest payable and similar expenses

	2016 £000	2015 £000
Bank Loans and overdrafts	31	28
Net interest cost on post employment benefits	1,083	1,998
Other interest expense	6	-
Interest payable to fellow group companies	186	234
Total other interest payable and similar charges	<u>1,306</u>	<u>2,260</u>

9 Tax on profit
Recognised in the profit and loss account

	2016 £000	2015 £000
UK corporation tax		
Current tax on income for the year	(1,279)	(4,079)
Adjustments in respect of prior years	1,364	2,796
Total current tax	<u>85</u>	<u>(1,283)</u>

Deferred tax

Origination and reversal of temporary differences	(2,273)	(1,111)
Reduction in tax rate	(401)	13
Adjustments in respect of prior years	-	(248)

Total deferred tax	<u>(2,674)</u>	<u>(1,346)</u>
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Tax on profit on ordinary activities	<u>(2,589)</u>	<u>(2,629)</u>
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Income tax recognised in other comprehensive income

	2016 £000	2015 £000
Remeasurements of defined benefit liability	(8,135)	(4,754)
Fair value adjustment re investment in SKF India	788	-
	<u>(7,347)</u>	<u>(4,754)</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

9 Tax on profit (continued)

Reconciliation of effective tax rate

The tax expense in the income statement for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are reconciled below:

	2016 £000	2015 £000
Profit for the year	16,281	23,409
Total tax expense	<u>2,589</u>	<u>2,629</u>
Profit excluding taxation	18,870	26,038
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	(3,774)	(5,272)
Dividends received	116	17
Non-deductible expenses	(169)	(178)
Non-taxable income	-	17
Change in corporation tax rate	(401)	17
Tax credits - Research and Development	275	222
Adjustments in respect of prior years	1,364	2,548
Total tax expense	<u>(2,589)</u>	<u>(2,629)</u>

UK Corporation tax is calculated at 20.00% (2015: 20.25%) of the estimated assessable profit for the year. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
10 Intangible assets

	Development Costs £000	Intellectual Property £000	Total £000
Cost			
Balance at 1 January 2016	203	300	503
Balance at 31 December 2016	<u>203</u>	<u>300</u>	<u>503</u>
Accumulated amortisation			
Balance at 1 January 2016	141	262	403
Charge for the year	-	15	15
Balance at 31 December 2016	<u>141</u>	<u>277</u>	<u>418</u>
Net book value			
At 31 December 2016	<u>62</u>	<u>23</u>	<u>85</u>
As 31 December 2015	<u>62</u>	<u>38</u>	<u>100</u>

The amortisation and impairment charge is recognised in the following line items in the profit and loss account:

	2016 £000	2015 £000
Cost of sales	15	15
	<u>15</u>	<u>15</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

11 Tangible assets

	Land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost				
Balance at 1 January 2016	17,114	56,873	647	74,634
Additions	-	1,083	1,199	2,282
Transfers	104	543	(647)	-
Disposals	-	(171)	-	(171)
Balance at 31 December 2016	17,218	58,328	1,199	76,745
Depreciation				
Balance at 1 January 2016	9,547	49,107	-	58,654
Depreciation charge for the year	393	1,281	-	1,674
Disposals	-	(170)	-	(170)
Balance at 31 December 2016	9,940	50,218	-	60,158
Net book value				
At 31 December 2016	7,278	8,110	1,199	16,587
At 31 December 2015	7,567	7,766	647	15,980

The net book value of freehold land and buildings comprises:

	2016 £000	2015 £000
Freehold - Cost	14,667	14,613
Freehold - Accumulated depreciation	(7,546)	(7,185)
	7,121	7,428

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

12 Investments

	Shares in group undertakings £000	Other investments (Unlisted) £000	Total £000
Cost			
At 1 January 2016	2,753	831	3,584
Disposals	(2,753)	-	(2,753)
At 31 December 2016	-	831	831
Fair Value adjustment			
At 1 January 2016	-	-	-
Fair value adjustment	-	4,145	4,145
At 31 December 2016	-	4,145	4,145
Net book value			
At 31 December 2016	-	4,976	4,976
At 31 December 2015	2,753	831	3,584

The companies in which the Company has an interest at the year end are as follows:

	Country of Incorporation	Principal activity	Class and percentage of shares held
Other investments			
SKF India Limited Mahatma Gandhi Memorial Building Netaji Subhash Road Mumbai 400 002.	India	Bearing manufacturer	Ordinary shares 6.45%

During the year the Company disposed of its shareholdings in Slowind Limited and Burywind Limited.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
13 Inventory

	2016	2015
	£000	£000
Raw materials and consumables	8,162	7,579
Work in progress	6,296	5,797
Finished goods	4,552	4,966
	<u>19,010</u>	<u>18,342</u>

Stock values are stated net of a provision for net realisable value of £6,197,000 (2015:£5,192,000). The amount charged to expense for net realisable provisions during the year was £1,005,000 (2015:£nil). Reversals of net realisable provisions during the year were £nil (2015:£340,000). The amount of inventory charged to cost of sales during the year was £156,996,000 (2015: £168,039,000).

14 Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	25,500	31,266
Amounts owed by group undertakings	96,784	82,846
Other receivables	3,976	1,933
Deferred tax assets (see note 16)	13,667	8,206
Prepayments and accrued income	1,934	1,689
	<u>141,861</u>	<u>125,940</u>

Deferred tax assets include £12,525,000 (2015: £8,202,000) falling due after more than one year.

15 Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Trade creditors	9,404	7,522
Amounts owed to group undertakings	15,562	17,580
UK Corporation tax payable	608	766
Taxation and social security	483	791
Other creditors	2,601	3,226
Accruals and deferred income	9,019	11,884
	<u>37,677</u>	<u>41,769</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

16 Deferred tax assets and liabilities

	2016 £000	2015 £000
Deferred tax liability		
Accelerated capital allowances	(663)	(726)
Revaluation of Investment	(788)	-
	<u>(1,451)</u>	<u>(726)</u>
Deferred tax asset		
Post employment benefits	12,939	6,499
Credit note reserve	7	4
Tax losses carried forward	2,172	2,429
	<u>15,118</u>	<u>8,932</u>
Disclosed on the balance sheet:		
Deferred tax asset	<u>13,667</u>	<u>8,206</u>

Deferred tax in the income statement

General credit note reserve	3	(4)
Plant and Property	63	(9)
Pension - IAS19	6,440	(5,839)
Adjustments in respect of prior year	-	(248)
Deferred tax movement on actuarial gains & losses booked in equity	(8,135)	4,754
Tax loss carry forwards	(257)	-
Gain on fair valuation of investment	(788)	-
Deferred tax booked in profit and loss account	<u>(2,674)</u>	<u>(1,346)</u>

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Property, plant and machinery	-	-	(663)	(726)	(663)	(726)
Provisions for post employment benefits	12,939	6,499	-	-	12,939	6,499
Tax loss carry forwards	2,172	2,429	-	-	2,172	2,429
Trade receivables	7	4	-	-	7	4
Revaluation of investment	-	-	(788)	-	(788)	-
Tax assets/(liabilities)	<u>15,118</u>	<u>8,932</u>	<u>(1,451)</u>	<u>(726)</u>	<u>13,667</u>	<u>8,206</u>

Movement in deferred tax - current year

	1 Jan 2016 £000	Recognised in income statement £000	Recognised in equity £000	31 Dec 2016 £000
Property, plant and machinery	(726)	63	-	(663)
Post employment benefits	6,499	(1,695)	8,135	12,939
Tax loss carry forwards	2,429	(257)	-	2,172
Credit note reserve	4	3	-	7
Revaluation of investment	-	(788)	-	(788)
	<u>8,206</u>	<u>(2,674)</u>	<u>8,135</u>	<u>13,667</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

16 Deferred tax assets and liabilities (continued)

Movement in deferred tax - comparative year

	1 Jan 2015 £000	Recognised in income £000	Recognised in equity £000	31 Dec 2015 £000
Property, plant and machinery	(717)	(9)	-	(726)
Post employment benefits	12,338	(1,085)	(4,754)	6,499
Tax loss carry forwards	2,677	(248)	-	2,429
Credit note reserve	8	(4)	-	4
	<u>14,306</u>	<u>(1,346)</u>	<u>(4,754)</u>	<u>8,206</u>

17 Employee benefits

Pension Costs

The Company provides pension arrangements to the majority of full time employees through two defined benefit schemes, the Main plan and the Executive plan (closed to new entrants 1 November 2004), and a defined contribution scheme for employees joining the pension from 6 April 2012, when the Main plan was closed to new entrants.

Benefits provided under the defined contribution scheme are determined by reference to the contributions paid, which are immediately charged to the profit and loss account during the year. The cost of the contributions to the defined contribution scheme amounts to £1,297,000 (2015: £1,211,000). Outstanding contributions at the end of the year were £46,000 (2015: £97,000).

The related costs of the defined benefit schemes are assessed in accordance with the advice of professionally qualified actuaries. The information disclosed below is in respect of the whole of the defined benefit plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the years shown.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
17 Employee benefits (continued)
Defined Benefit Scheme - Main Plan
Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date.

	2016	2015
	%	%
Discount rate	2.7	3.8
Retail price inflation	3.6	3.4
Consumer price inflation	2.6	2.4
Increases to pensionable earnings	2.8	2.8
Increases to pensions in payment:		
- RPI/5%	3.3	3.2
- RPI/2.5%	2.2	2.1
Increases to pension in deferment	3.6	3.4

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2016	2015
	Years	Years
Longevity at age 65 for current pensioners		
- Men	21.4	21.4
- Women	23.3	23.3
Longevity at age 65 for future pensioners		
- Men	21.9	21.9
- Women	24.1	24.0

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

17 Employee benefits (continued)

Defined Benefit Scheme - Main Plan (continued)

Reconciliation of scheme assets and liabilities:

	2016 Assets £000	2016 Liabilities £000	2016 Total £000	2015 Assets £000	2015 Liabilities £000	2015 Total £000
At 1 January	179,153	(208,100)	(28,947)	172,609	(228,829)	(56,220)
Benefits paid	(7,773)	7,773	-	(6,288)	6,288	-
Contributions by participants	72	(72)	-	87	(87)	-
Contributions by the employer	11,279	-	11,279	11,086	-	11,086
Current service cost	-	(3,642)	(3,642)	-	(4,239)	(4,239)
Interest income/(expense)	6,895	(7,855)	(960)	5,926	(7,749)	(1,823)
Remeasurement gains/(losses)	14,551	(61,595)	(47,044)	(4,233)	26,516	22,283
Contributions accounting differences	(7)	-	(7)	(34)	-	(34)
	<u>204,170</u>	<u>(273,491)</u>	<u>(69,321)</u>	<u>179,153</u>	<u>(208,100)</u>	<u>(28,947)</u>

Sensitivity of the defined benefit obligation to changes in the weighted principal assumptions:

2016				2015			
Impact on defined benefit obligation				Impact on defined benefit obligation			
Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption
%	£000	£000	%	£000	£000	%	£000
Discount rate	1.0	54,400	(69,100)	1.0	39,500	(50,000)	
Salary growth	0.5	(14,200)	12,900	0.5	(12,000)	11,000	
Pension increase	0.5	(8,300)	7,800	0.5	(5,200)	6,300	
Life expectancy	Increase or decrease by 1 year	(8,100)	8,100	Increase or decrease by 1 year	(5,300)	5,300	

Total cost recognised as an expense:

	2016 £000	2015 £000
Current service cost	3,642	4,239
Interest cost	960	1,823
	<u>4,602</u>	<u>6,062</u>

Current service cost charged to the profit and loss account excludes contributions by members.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
17 Employee benefits (continued)
Defined Benefit Scheme - Main Plan (continued)
The fair value of the plan assets:

	2016	2015
	£000	£000
Cash	2,027	1,896
Government bonds	56,784	45,232
Corporate bonds	60,973	60,552
Equity instruments	74,317	62,042
Property	10,069	9,431
	204,170	179,153

Return on plan assets:

	2016	2015
	£000	£000
Interest income	6,895	5,926
Remeasurements	14,551	(4,233)
	21,446	1,693

The company expects to contribute approximately £13.6m (2015: £11.0m) to the Main plan in the next financial year.

Defined Benefit Scheme - Executive Plan
Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date.

	2016	2015
	%	%
Discount rate	2.7	3.8
Retail price inflation	3.6	3.4
Consumer price inflation	2.6	2.4
Increases to pensionable earnings	3.0	2.8
Increases to pensions in payment:		
- RPI/5%	3.3	3.2
- RPI/2.5%	2.2	2.1
Increases to pension in deferment	3.6	3.4

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60:

	2016	2015
	Years	Years
Longevity at age 60 for current pensioners		
- Men	28.2	29.3
- Women	29.3	30.6
Longevity at age 60 for future pensioners		
- Men	31.0	31.6
- Women	32.6	33.0

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

17 Employee benefits (continued)

Defined Benefit Scheme - Executive Plan (continued)

Reconciliation of scheme assets and liabilities:

	2016 Assets £000	2016 Liabilities £000	2016 Total £000	2015 Assets £000	2015 Liabilities £000	2015 Total £000
At 1 January	14,931	(18,481)	(3,550)	14,688	(20,158)	(5,470)
Benefits paid	(564)	564	-	(699)	699	-
Contributions by the participants	1	(1)	-	-	-	-
Contributions by the employer	800	-	800	791	-	791
Current service cost	-	(176)	(176)	-	(186)	(186)
Interest income	572	(695)	(123)	504	(679)	(175)
Remeasurement gains/(losses)	2,057	(2,868)	(811)	(353)	1,843	1,490
	<u>17,797</u>	<u>(21,657)</u>	<u>(3,860)</u>	<u>14,931</u>	<u>(18,481)</u>	<u>(3,550)</u>

Sensitivity of the defined benefit obligation to changes in the weighted principal assumptions:

	2016 Impact on defined benefit obligation			2015 Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
	%	£000	£000	%	£000	£000
Discount rate	1.0	3,000	(3,800)	1.0	39,500	(50,000)
Salary growth	0.5	(100)	100	0.5	(12,000)	11,000
Pension increase	0.5	(400)	400	0.5	(5,200)	6,300
Life expectancy	Increase or decrease by 1 year	(700)	700	Increase or decrease by 1 year	(5,300)	5,300

Total cost recognised as an expense:

	2016 £000	2015 £000
Current service cost	176	186
Interest cost	123	175
	<u>299</u>	<u>361</u>

Current service cost charged to the profit and loss account excludes contributions by members.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
17 Employee benefits (continued)
Defined Benefit Scheme - Executive Plan (continued)
The fair value of the plan assets:

	2016 £000	2015 £000
Cash	143	65
Government bonds	5,180	3,915
Corporate bonds	4,332	3,760
Equity instruments	8,142	7,191
	<u>17,797</u>	<u>14,931</u>

Return on plan assets:

	2016 £000	2015 £000
Interest income	572	504
Remeasurements	2,057	(353)
	<u>2,629</u>	<u>151</u>

The company expects to contribute approximately £0.8m (2015: £0.8m) to the Executives plan in the next financial year.

For the Main Plan the IAS19 liabilities have been based on the draft results of the triennial actuarial valuation of the Plan as at 6 April 2014. For the Executive Plan, the value of the IAS19 liabilities have been based on the results of the triennial actuarial valuation of the Plan as at 1 June 2016. The liabilities were then adjusted for actual scheme experience to the accounting date, and further adjusted to take account of the assumptions set out above.

Defined contribution scheme

The amount recognised as an expense for the defined benefit contribution scheme:

	2016 £000	2015 £000
Current year contributions	1,297	1,211
	<u>1,297</u>	<u>1,211</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**18 Called up share capital****Share capital**

	2016 £000	2015 £000
Allotted, called up and fully paid		
37,200,000 (2015: 37,200,000) Ordinary shares of £1 each	<u>37,200</u>	<u>37,200</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

Subsequent to the year end, dividends of 80.6p per qualifying ordinary share (2015: £nil) were approved by the Directors. The dividends have not been included as a liability in these financial statements.

19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	745	1,353
Between one and five years	1,271	1,601
More than five years	219	64
	<u>2,235</u>	<u>3,018</u>

The Company leases a number of manufacturing facilities, offices, motor vehicles and items of machinery under operating leases.

During the year, £861,000 was recognised as an expense in the profit and loss account in respect of operating leases (2015: £1,701,000).

20 Commitments**Capital commitments**

During the year ended 31 December 2016, the Company entered into a contracts to purchase property, plant and equipment for £2,359,000 (2015: £865,000).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
21 Related parties

During the year the Company entered into transactions, in the ordinary course of business, with related parties. Those transactions with directors are disclosed in note 6. The Company has taken advantage of the exemption available under FRS101 not to disclose transactions with wholly owned subsidiaries. Transactions entered into, and balances outstanding at 31 December with other related parties, the Company's defined benefit and contribution schemes are as follows:

	Purchases and other expenses		Amounts owed to	
	2016	2015	2016	2015
	£000	£000	£000	£000
Other related parties	6,198	7,634	347	406
	<u>6,198</u>	<u>7,634</u>	<u>347</u>	<u>406</u>

	Other related parties	
	2016	2015
	£000	£000
Purchases and other expenses		
Main Plan Current Service + Interest Cost (Note 17)	4,602	6,062
Exec Plan Current Service + Interest Cost (Note 17)	299	361
GFRP Contributions (Note 17)	1,297	1,211
	<u>6,198</u>	<u>7,634</u>

Amount owed to

Main & Exec Plan	301	309
GFRP Contributions (Note 17)	46	97
	<u>347</u>	<u>406</u>

Terms and conditions for transactions with other related parties are as per the schedule of contributions and are to be paid on or before the 19th of the calendar month following that to which the payment relates.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)**22 Accounting estimates and judgements**

The preparation of financial statements requires management to make estimates and judgements that affect reported assets, liabilities, revenues and expenses. These estimates can be based on historical experiences, other internal/external sources, and/or assumptions that management believes are reasonable under the circumstances. These estimates also form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from management's estimates which could have a significant impact on the Company's financial statements. Management believes that the following areas contain the most key judgements and the most significant sources of estimation uncertainty used in the preparation of the financial statements, where a different opinion or estimate could lead to significant changes to the Company's financial statements in the upcoming year.

Inventories

Adjustments to the cost of inventory may be necessary when the cost exceeds net realisable value. Net realisable value is defined as selling price less costs to complete and costs to sell. The estimates used in determining net realisable value are a source of estimation uncertainty. As future selling prices and selling costs are not known at the time of assessment, management's best estimates are used based on current price and cost levels. Adjustments to net realisable value also include estimates of technical and commercial obsolescence which is assessed by the rate of turnover and ageing as risk indicators.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

Pension and other post employment benefits

The cost of defined benefit pensions plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. The discount rate is determined by reference to yields on high quality corporate bonds (AA-rated corporate bonds or indexes) having maturities matching the duration of the obligation. The pension increase rate assumption is relevant mainly for retired plan members, and refers to the indexation of pension payments tied primarily to inflation. The salary growth rate is relevant for active plan members and reflect the long-term actual experience, the near term outlook and assumed inflation. Longevity reflects the life expectancy of plan members and is established based on mortality tables used for each plan. Further details are given in note 17.

23 Ultimate parent company and parent company of larger group

The Company's ultimate parent company and controlling party is Aktiebolaget SKF which is incorporated in Sweden. The Company's immediate parent company at 31 December 2016 was Trelanoak Limited.

The largest group in which the results of the Company are consolidated is that headed by Aktiebolaget SKF. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from SKF (U.K.) Limited, Sundon Park Road, Luton, Bedfordshire, LU3 3BL.