

SKF (U.K) Limited

Annual Report and Financial Statements

Registered number 00107367

31 December 2019

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**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 remained solid throughout the year delivering an increase of 3.3% over 2018 levels. This was in line with expectation with growth as anticipated at a slower rate than the previous year. By seeking to always put the customer first and keeping a consistent focus on cost, the Company managed to deliver stable results.

Profit before tax was significantly higher than the previous year; this was as a result of the higher operating profit (which benefited from a focus on pricing and cost reductions) and the dividend of £20.0m received from Cooper Roller Bearings Company Limited.

The Company remains in a strong financial position. As at 31 December 2019, the Company had net assets of £142.0m (2018: £110.3m).

For 2020 the demand for the Company's products and services is expected to be lower. With the UK entering the transition period after Brexit and the unexpected COVID-19 global pandemic, the Company is faced with many uncertainties and contingency plans for the foreseeable future. The continued evolution of abilities, with more good customer relationships established and better ways of working, gives confidence that over the longer term the improvement and growth journey can continue in the more challenging environment that 2020 represents.

Key performance indicators

The Company's financial targets are aligned to the SKF Group and are to be achieved over a business cycle. Sales growth slowed compared to previous year falling below Group target, but remained positive with increased sales in most business areas. Both Operating margin and Return on capital employed remained in line with previous year and were below target due to the negative impact of the restructuring costs. Net working capital remained well below target, positively impacted by lower inventories and the level of trade receivables compared to sales. Net debt / equity decreased with the financial assets positively impacted by dividend receipts from investments during the year.

	Target %	2019 %	2018 %
Organic growth	5	3	12
Operating margin	12	6	6
Return on capital employed	16	7	8
Net working capital	<25	15	14
Net debt/equity	<80	33	82

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.

The COVID-19 global pandemic brings a high level of uncertainty and risks to the Company in terms of business disruption, adverse effect on economic and market conditions and lowering of customer demand. The impact of such on revenues, profitability and financial position of the Company are difficult to assess or predict.

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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**Risks and uncertainties in the business (continued)**

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.

Section 172(1) Statement

SKF (U.K) Limited, in common with all companies within the SKF Group, strives to do business as economically, socially and responsibly as possible. How the Company approaches and coordinates this, the way it behaves and incorporates a set of shared values, ethical business culture and behavioural expectations, is enshrined in the SKF Code of Conduct, which is available in the 'about us' section of the SKF Group website, <http://www.skf.com>.

The SKF Code of Conduct covers four areas of responsibility:

Responsibility towards customers, distributors and suppliers

The Company gains and maintains business by creating value for its business partners. SKF has specific codes of conduct for suppliers, distributors, agents and other intermediaries which are based on the SKF Code of Conduct, and the Company will only enter into business relationships with those who comply with these codes of conduct.

Four editions of the FOCUS customer magazine are currently produced each year, which includes UK and international SKF news, customer case studies, the latest products and solutions and more. FOCUS is distributed to around 6,000 customers and distributors across the UK and Ireland, as well as being available on the SKF website.

As part of its duty under the Reporting on Payment Practices and Performance Regulations 2017, the Company takes a proactive role in analysing the data rather than just reporting it, in order to identify and redress instances of late payment to suppliers according to agreed payment terms.

Responsibility towards employees

The Company takes every opportunity to strive towards a positive and engaging work environment, realising that SKF's history of success has and continues to be dependent on the collective skills and experience of its employees. New technologies create both challenges and opportunities for SKF employees to develop new skills, and SKF actively encourages employees by offering a wide range of competence development activities, including academies run by SKF Group HR that work closely with the business dimensions. For more information on the Company's relationship and details of engagement activities with employees, please refer to the section entitled 'Employees' in the Directors' Report starting on page 6.

Responsibility towards society and the environment

The Company's ability to profitably manage and grow its business in an ethical manner is the foundation by which it meets its social responsibility.

The Company's social commitment requires that all products and services are designed, produced and delivered with relevant safety information such that they are safe for their intended use.

SKF takes a social responsibility in the local communities in which it operates and establishes and maintains relationships which are based on trust, transparency and mutual respect.

Environmental and climate issues are always considered, and we work to understand the impacts of these forces along our value chain, from raw material, manufacturing and logistics to end-use for the customer or end of life.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**Section 172(1) Statement (continued)***Responsibility towards shareholders*

The Company strives for a sustainable and improving return for its shareholders. Shareholders' interests shall always be considered when determining strategies and activities.

Strategy and Governance

SKF's business and strategy are cascaded from the Group parent company, AB SKF. The SKF Group Annual Report, page 104, describes the role of AB SKF as the entrepreneur of the Group which makes strategic decisions. Details of the strategic focus areas of AB SKF can be found starting on page 14 of the SKF Group Annual Report.

The Company's governance structure is aligned with that of the SKF Group as described within its Annual Report on page 119. Authority and responsibility are delegated to the Country manager appointed by SKF's Group management. The Country manager, who is the Managing Director of the Company, is responsible for the Company's performance including financial metrics, social impact, compliance and other topics as stated in the SKF Group Policy on Country Manager and Managing Director Roles and Responsibilities. Operationally the Company maintains an efficient organisational structure aligned with the business areas of the SKF Group, with clear areas of responsibility and clear rules for delegation as set out within both the Company and SKF Group policies and instructions. The Board comprises of the Managing Director, Finance Director and Human Resources Director. The Directors undertake both continuous professional development aligned with their role and also training as identified related to legal and compliance aspects in order to fulfil their duties as a Board member.

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.

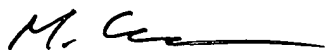
Results for the year

Total sales for the year amounted to £274.3 million (2018 - £265.6 million).

The profit for the financial year was £33.7 million (2018 - £11.0 million). The Company continues to control spend and operate good pricing policies within the market.

The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practical at this time to determine the impact of COVID-19 on the Company or to provide a quantitative estimate of this impact.

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



M R Crean
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL
United Kingdom

7 September 2020

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019.

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
S L Smith (resigned 8 April 2019)
P J Owen
T M Bates (appointed 8 April 2019)

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

There was no interim dividend paid during the year in respect of the year ended 31 December 2019 (2018: £nil million). The Directors do not recommend a final dividend (2018: £nil).

Business review and future developments

The Strategic Report on pages 2 - 4 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 centralised 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 Customer Credit Policy.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (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 2019 the Company spent £6.6 million on research and development (2018: £6.7 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 with a view to 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 (2018: £nil).

Stakeholder Engagement

The Company aims to align its business practices with the needs and expectations from its stakeholders. Stakeholder groups are defined as entities or individuals that may both influence and be influenced by the Company's activities. The Company works in different ways to identify individuals with whom to engage and many times in the form of continual dialogues. The work to engage with the stakeholder groups is conducted by respective functions within the Company (e.g. Human Resources, Communication, Sales, Manufacturing and Purchasing).

Employees

The Company aims to maintain strong focus on communication and engagement with employees throughout all area of the business both collectively and individually.

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 regularly share 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 web-based 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 arrangement is operated 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**Stakeholder Engagement (continued)**

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.

Customers, Distributors and Suppliers

The Company fosters an open and ethical business culture and performs the duties with care, honesty and integrity. The interests of the Company with customers, distributors and suppliers are aligned by creating value. The Company advocates free and fair competition and the Company treats business partners and competitors fairly and with respect.

Customer and distributor input are sought and received via sales and marketing operations and activities carried out by the Company; from discussions with key account managers to daily conversations between customer representatives and the Company's local account managers. The Company also collects key issues and concerns from customer surveys and assessments.

The Company gives comparable suppliers equal opportunities of invitation to tender and is willing to work with all suppliers providing they aim to comply with the principles of the SKF Code of Conduct for suppliers and subcontractors. The Company believes in building strong and beneficial long-term relationships based on mutual trust. By working closely together, building on the Company's and suppliers' knowledge and experience, SKF is confident in giving suppliers the opportunity to benefit from a sustainable and profitable growth and to create a competitive advantage. The Company selects suppliers based upon rational and clear standards, such as quality, cost, delivery, innovation and corporate management in terms of sustainability, continuous improvements and shared values for profitable growth.

Society

The communities in which the Company operates are important stakeholders for the Company and their input helps shape local activities. The Company interacts with the surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, charity work, sponsoring and local network collaboration.

Shareholders

The Company strives for a sustainable and improving return for its shareholders. Shareholders' interests shall always be considered when determining strategies and activities.

Effects of COVID-19

In March 2020, the World Health Organisation declared COVID-19 a global pandemic as a result of the spread of the virus into all regions of the world. This outbreak has impacted all aspects of the Company; its employees, customers, distributors, suppliers, shareholders, the society in which it operates and the wider SKF Group. To focus and coordinate business activities the Company has established a Crisis Management Team who are working closely with Site Executives and Union representatives. The Company has remained operational albeit at a lower capacity, taking lower demand levels into account. Work has continued to ensure sites remain safe places to work, with an increased focus on personal hygiene, distancing and wellbeing. There has been a particular focus on employee communication and engagement; through line manager contact, regular newsletters, team-briefs, employee focus groups and increased access to and content on the SKF Group Intranet, UK Portal.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**Effects of COVID-19 (continued)**

The Company continues to adopt the going concern basis in preparing its financial statements. Alongside continuing to be operational during this period, the Company and its employees are adapting to new ways of working whilst maintaining customer focus and productivity. The Company has maintained a positive net current assets position, which includes current financial assets which are part of the SKF Group cash pooling arrangement operated and managed centrally by SKF Treasury Centre. To support this the Company continues to operate high focus on cashflow which includes managing supplier payments and proactive chasing of customer debt, alongside operational review and focus on areas of increased credit risk. Given the uncertainty, it is difficult to predict the duration of any business disruption and financial impact that the situation may have. The Company is, however, taking steps to mitigate the impact; this includes reducing costs, increasing workforce flexibility, deferral of VAT payments and, where appropriate due to reduced capacity, furloughing employees and applying for grants through the Coronavirus Job Retention Scheme. These steps are taken in a responsible manner, to protect the business, to act appropriately as the situation develops and to ensure a strong foundation is in place from which to emerge from this crisis. Both the SKF Group and Company at the end of June 2020 continue to have strong operating result despite a sharp fall in turnover.

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 4. The Company's financial risk management objectives, and its exposures to COVID-19, 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 Auditors

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and 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 they have elected to prepare the financial statements in accordance with United Kingdom accounting standards and applicable law (United Kingdom Generally Accepted Accounting Practice) including (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;

- 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

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

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



M R Crean
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL
United Kingdom

7 September 2020

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

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 2019, the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SKF (U.K) LIMITED (CONTINUED)**Reporting on other information**

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit***Responsibilities of the Directors for the financial statements***

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SKF (U.K) LIMITED (CONTINUED)*Use of this report*

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

Other required reporting**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 September 2020

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Turnover	2	274,321	265,564
Cost of sales		<u>(240,430)</u>	<u>(231,131)</u>
Gross profit		33,891	34,433
Distribution costs		(1,681)	(3,090)
Administrative expenses		(14,858)	(15,621)
Other operating income		-	12,936
Restructuring costs	4	<u>(731)</u>	<u>(13,818)</u>
Operating profit	3	16,621	14,840
Income from other fixed asset investments	7	20,497	431
Other interest receivable and similar income	8	339	165
Interest payable and similar expenses	9	<u>(2,359)</u>	<u>(2,065)</u>
Profit before taxation		35,098	13,371
Tax on profit	10, 18	(1,406)	(2,387)
Profit for the financial year		<u>33,692</u>	<u>10,984</u>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £000	2018 £000
Profit for the financial year	<u>33,692</u>	<u>10,984</u>
Other comprehensive income/(expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurements on defined benefit pension plan	(8,922)	(6,180)
Fair value adjustment to investment carrying value	5,502	(2,787)
Income tax on items that will not be reclassified to profit or loss	<u>1,364</u>	<u>1,581</u>
Other comprehensive expense for the year, net of income tax	<u>(2,056)</u>	<u>(7,386)</u>
Total comprehensive income for the year	<u>31,636</u>	<u>3,598</u>

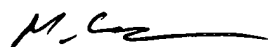
The results of the Company are generated entirely from continuing operations.

The notes on pages 16 to 46 form an integral part of these financial statements.

SKF (U.K) LIMITED**14****BALANCE SHEET AS AT 31 DECEMBER 2019**

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	11	-	52
Tangible assets	12	17,693	17,929
Right of use assets	13	2,939	-
Investments	14	141,779	138,529
		<u>162,411</u>	<u>156,510</u>
Current assets			
Inventories	15	21,728	20,600
Trade and other debtors - including £11,827,000 (2018: £12,274,000) amounts falling due after more than one year	16	95,103	87,727
Cash and cash equivalents		626	2,255
		<u>117,457</u>	<u>110,582</u>
Creditors: amounts falling due within one year	- 17	(49,234)	(70,341)
Net current assets		<u>68,223</u>	<u>40,241</u>
Total assets less current liabilities		<u>230,634</u>	<u>196,751</u>
Provisions for liabilities			
Pension liabilities	19	(72,741)	(72,926)
Other provisions	4	(14,002)	(13,493)
Lease liabilities		(1,923)	-
		<u>(88,666)</u>	<u>(86,419)</u>
Net assets		<u>141,968</u>	<u>110,332</u>
Capital and reserves			
Called up share capital	20	37,200	37,200
Share premium account		1,114	1,114
Other reserves	21	60,818	56,679
Profit and loss account		42,836	15,339
Total shareholders' funds		<u>141,968</u>	<u>110,332</u>

These financial statements on pages 13 to 46 were approved by the board of Directors on 7 September 2020 and were signed on its behalf by:



M R Crean
Director

Company registered number: 00107367

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	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 2018	37,200	1,114	58,936	9,484	106,734
Total comprehensive income for the year					
Profit for the financial year	-	-	-	10,984	10,984
Other comprehensive expense	-	-	(2,257)	(5,129)	(7,386)
Total comprehensive income for the year	-	-	(2,257)	5,855	3,598
Balance at 31 December 2018	37,200	1,114	56,679	15,339	110,332
Balance at 1 January 2019	37,200	1,114	56,679	15,339	110,332
Total comprehensive income for the year					
Profit for the financial year	-	-	-	33,692	33,692
Release revaluation reserve on disposal of SKF India Shares	-	-	(1,804)	1,804	-
Other comprehensive expense	-	-	5,943	(7,999)	(2,056)
Total comprehensive income for the year	-	-	4,139	27,497	31,636
Dividends paid	-	-	-	-	-
Balance at 31 December 2019	37,200	1,114	60,818	42,836	141,968

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019**1 ACCOUNTING POLICIES****Basis of preparation**

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.

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:

- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' - comparative information requirements in respect of:
 - i. Paragraph 79(a)(iv) of IAS 1;
 - ii. Paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - iii. Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- Requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019**1 ACCOUNTING POLICIES (continued)****Basis of preparation (continued)**

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;

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 24.

Measurement convention

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below or in a respective note, and in accordance with the Companies Act 2006.

New standards amendments and IFRIC interpretations

IFRS 16 Leases is a new accounting standard that is effective for the year ended 31 December 2019. For lessees, the standard eliminates the classification of leases as either operating or finance, as required by IAS 17, and instead introduces a single lease accounting model. Applying that model, a lessee is required to present, (a) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value; and (b) depreciation of leased assets separately from interest on lease liabilities in the income statement. The Company has applied the modified retrospective method when it transitioned to IFRS 16 on 1 January 2019, meaning that the Company will not restate the financial statements for 2018. The lease liability is the present value of all future payments until the lease end date. The practical expedient to set the right of use asset (before adjustments for any prepayments) equal to the lease liability has been applied for the transition. The rate for discounting the lease payments is the SKF Group incremental borrowing rate with consideration to the maturity of the lease contracts. The practical expedient for definition of a lease has been applied, which means that all components within a lease has been considered as a lease component. The short term lease exception and the asset of low value exception have also been applied. The opening balance of the lease liability and the Right of use assets amounts to £3.3 million for current lease contracts. The average discount rate used for transition is 2.70%.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****New standards amendments and IFRIC interpretations (continued)****Reconciliation from IAS 17 to IFRS 16**

	£000
Operating lease obligation according to IAS 17 as at 31 December 2018	4,881
Discounted using the lessee's incremental borrowing rate at the date of initial application	(1,048)
Short term and assets of low value exceptions	(491)
	<hr/>
Lease liability recognised as at 1 January 2019	3,342
	<hr/>
Of which are:	
Current lease liabilities	1,022
Non current liabilities	2,320
	<hr/>
	3,342
	<hr/>

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Right of use assets - increase	3,398
Lease liabilities - increase	3,398

There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the Company.

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 SKF Group 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****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.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Leases**

All lease contracts are recognised in the balance sheet, at commencement date, as a right of use asset and a lease liability. A contract is or contains a lease if it conveys, to the Company, the right to control the use of an identified asset for a period of time in exchange of a consideration. A right of use asset and a lease liability is recognised for all leases with a term of more than twelve months unless the underlying asset is of low value. The right of use asset is subsequently accounted for with the same regulations as Property, plant and equipment. The lease liability is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used. The incremental borrowing rate is established by SKF Group's Treasury Centre based on currency and maturity of lease contracts.

The lease term is determined as the non - cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The Company also applies the practical expedient for fixed non - lease components and includes them together with any lease component in the contract. Any future lease modification not registered as a separate contract, is recognised as a remeasurement of the lease liability and an adjustment to the right of use asset.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Intangible assets and goodwill*Research and development*

The Company undertakes research and development expenditure with a view to 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Intangible assets and goodwill (continued)***Research and development (continued)*

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.

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.

Investments

Investments in subsidiaries are recorded at acquisition cost reduced by any impairment.

Other investments comprise equity investments. The Company has elected to designate equity investments as measured at FVOCI. They are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in other comprehensive income. On disposal of the equity investment, gains and losses that have been deferred in Other comprehensive income are transferred directly to retained earnings.

Dividends from investments are recognised in profit or loss account as other income when the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****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.

Financial assets measured at amortised cost are calculated using the effective interest method. For disclosure purposes, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data. For current receivables, such as trade receivables, the carrying amount is considered to correspond to fair value. Allowance for doubtful accounts are recognised with the use of a forward - looking 'expected - loss' impairment model which indicates when the asset may not be recovered. The forward - looking information should capture changes in the market that the customers operate in.

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.

Financial Assets

The Company classifies its financial assets in the following categories:

- Amortised cost.
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Financial Assets (continued)**

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the Company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Company considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal, and interest and the objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets.

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 Account represents amounts invoiced for goods and services supplied during period, exclusive of value added tax.

Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the fulfilment of the contract. Any products that are included in service contracts are reported as separate performance obligations and classified as revenue from products.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied and for the Company this is when the goods or services have transferred to the customer and the customer has control of these.

Revenues from service and/or maintenance contracts are either recognised at a point in time or over time. In those contracts where the service is delivered to the customer over time, the revenue is accounted for over the duration of the contract with the use of either the input or output methods. These are different methods to measure the progress towards a complete satisfaction of a performance obligation. Revenue from all other service contracts are accounted for at a point in time. Any anticipated losses on contracts are recognised in full in the period in which losses become probable and can be estimated.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Expenses***Operating lease payments (policy applicable before 1 January 2019)*

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. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Finance lease payments (policy applicable before 1 January 2019)

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****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 Profit and Loss Account 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 non current liabilities and are credited to the Profit and Loss Account 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 2019 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Employee Benefits

Defined benefit plans (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

	2019 £000	2018 £000
Sale of goods	264,479	255,246
Rendering of services	9,842	10,318
Total turnover	<u>274,321</u>	<u>265,564</u>

During the year the Company mainly conducted its business through its business areas: Industrial Sales, Bearing Operations, Automotive & Aerospace and Innovation & Business 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 2019 (CONTINUED)**3 Operating Profit**

This is stated after charging/(crediting):

	2019	2018
	£000	£000
Depreciation and amounts written off tangible assets	1,883	1,758
Depreciation and amounts written off right of use assets	1,014	-
Amortisation of intangible assets	52	18
Research and development costs	6,628	6,709
Government grants	(292)	(88)
Auditors' remuneration for audit of these financial statements	70	66
Net foreign currency exchange differences	129	(4)
Profit on disposal of tangible asset	-	(7)

Amounts payable to PricewaterhouseCoopers LLP by the Company in respect of non - audit related assurance services were £nil (2018: £nil).

4 Restructuring costs

During the year the Company provided for additional provisions in relation to restructuring amounting to £731,000. The current total provision provided in relation to the provision is £13,063,000. The restructuring programme effected 10 employees during the year, following the decision to make changes to the management structure within Bearing Operations and to the restructure within the business support functions and Industrial Sales Business Unit.

5 Staff numbers and costs

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

	Number of employees	
	2019	2018
Production	593	573
Sales and distribution	96	101
Administration	222	233
	911	907

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	41,485	41,141
Social security costs	3,839	3,908
Other pension costs	7,991	7,553
	53,315	52,602

NOTES TO THE FINANCIAL STATEMENTS - 31 December 2019 (CONTINUED)

6 Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	631	931
Amounts receivable under long term incentive schemes	96	58
Company contributions to defined contribution pension plan	41	2
Company contributions to defined benefit pension plans	154	134
Compensation for loss of office	-	248

The emoluments of the highest paid Director were £349,473 (2018: £526,421). Company pension contributions made on their behalf were £37,988 (2018: £115,433), and the accrued pension benefit at the end of the year was £nil (2018: £73,474). During the year, the highest paid Director received shares under a long term incentive scheme of £31,773 (2018: £7,944).

	Number of Directors	
	2019	2018
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution pension plan	3	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	2	3
---	---	---

7 Income from other fixed asset investments

	2019 £000	2018 £000
Dividend received - Investment in subsidiary	20,000	-
Dividend received - Other Investment	497	431
	<u>20,497</u>	<u>431</u>

8 Other interest receivable and similar income

	2019 £000	2018 £000
Interest receivable from fellow group companies	35	-
Net foreign exchange gain	-	159
Other interest	304	6
Total interest receivable and similar income	<u>339</u>	<u>165</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

9 Interest payable and similar expenses

	2019 £000	2018 £000
Bank Loans and overdrafts	51	46
Lease interest expense	109	-
Net interest cost on post - employment benefits	2,017	1,810
Other interest expense	-	43
Interest payable to fellow group companies	173	166
Foreign exchange loss	9	-
Total other interest payable and similar charges	<u>2,359</u>	<u>2,065</u>

10 Tax on profit

Recognised in the profit and loss account

	2019 £000	2018 £000
UK corporation tax		
Current tax on profit for the year	678	3,702
Adjustments in respect of prior years	101	(218)
Total current tax	<u>779</u>	<u>3,484</u>
Deferred tax		
Origination and reversal of temporary differences	2,053	(1,321)
Reduction in tax rate	(1,426)	224
Total deferred tax	<u>627</u>	<u>(1,097)</u>
Current tax charge for the year	<u>1,406</u>	<u>2,387</u>

Tax relating to items charged or credited to other comprehensive income

	2019 £000	2018 £000
Current tax:		
Reversal of SNFA historical tax balance	(705)	-
	<u>(705)</u>	<u>-</u>
Deferred tax:		
Remeasurements of defined benefit liability	(1,705)	(1,051)
Tax on fair value adjustment re investment in SKF India	1,046	(530)
	<u>(659)</u>	<u>(1,581)</u>
	<u>(1,364)</u>	<u>(1,581)</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

10 Tax on profit (continued)

Reconciliation of effective tax rate

The tax expense in the Profit and Loss Account for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £000	2018 £000
Profit for the financial year	33,692	10,984
Total tax expense	<u>1,406</u>	<u>2,387</u>
Profit excluding taxation	35,098	13,371
Tax using the UK corporation tax rate of 19% (2018: 19%)	6,669	2,541
Dividends received	(3,883)	(82)
Non - deductible expenses	237	251
Change in corporation tax rate	(1,426)	224
Tax credits - Research and Development	(292)	(329)
Adjustments in respect of prior years	101	(218)
Total tax expense	<u>1,406</u>	<u>2,387</u>

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £1,407,000, and to reduce the deferred tax asset by £109,000.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

11 Intangible assets

	Development Costs £000	Intellectual Property £000	Total £000
Cost			
Balance at 1 January 2019	203	300	503
Disposal	(140)	-	(140)
Balance at 31 December 2019	63	300	363
Accumulated amortisation			
Balance at 1 January 2019	151	300	451
Charge for the year	52	-	52
Disposal	(140)	-	(140)
Balance at 31 December 2019	63	300	363
Net book value			
At 31 December 2019	-	-	-
As 31 December 2018	52	-	52

The amortisation charge is recognised in the following line items in the Profit and Loss Account:

	2019 £000	2018 £000
Cost of sales	52	18
	52	18

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

12 Tangible assets

	Land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost				
Balance at 1 January 2019	17,319	58,581	1,810	77,710
Additions	89	243	1,750	2,082
Transfers	-	1,675	(1,675)	-
Disposals	-	(433)	-	(433)
Reclassification	(176)	176	-	-
Balance at 31 December 2019	17,232	60,242	1,885	79,359
Accumulated Depreciation				
Balance at 1 January 2019	10,445	49,336	-	59,781
Depreciation charge for the year	357	1,526	-	1,883
Accelerated depreciation - Restructuring	-	435	-	435
Disposals	-	(433)	-	(433)
Reclassification	(128)	128	-	-
Balance at 31 December 2019	10,674	50,992	-	61,666
Net book value				
Balance at 31 December 2019	6,558	9,250	1,885	17,693
Balance at 31 December 2018	6,874	9,245	1,810	17,929

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)
13 Right of Use Assets

	Premises £000	Vehicles £000	Forklifts £000	Total £000
Cost				
Assets recognised upon adoption of IFRS 16	1,402	1,134	22	2,558
Additions	-	64	-	64
Modifications	767	516	48	1,331
Balance at 31 December 2019	<u>2,169</u>	<u>1,714</u>	<u>70</u>	<u>3,953</u>

Accumulated Depreciation

Balance at 1 January 2019	-	-	-	-
Depreciation charge for the year	381	621	12	1,014
Balance at 31 December 2019	<u>381</u>	<u>621</u>	<u>12</u>	<u>1,014</u>

Net book value

At 31 December 2019	<u>1,788</u>	<u>1,093</u>	<u>58</u>	<u>2,939</u>
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Lease liabilities

Current	960
Non Current	1,923
	<u>2,883</u>

Interest expense (included in interest payable & similar expenses)	109
Short - term lease expenses	157
Low - value asset lease expense	260
Variable lease payments not incl. in lease liability	41

Future Minimum lease payments as at 31 December 2019 are as follows:

	2019
No later than one year	1,063
Later than one year and not later than five years	1,759
Later than five years	161
Total gross payments	<u>2,983</u>
Impact of finance expenses	(100)
Carrying amount of liability	<u>2,883</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

14 Investments

	Investments in subsidiaries £000	Total £000
Cost		
At 1 January 2019	68,900	68,900
At 31 December 2019	<u>68,900</u>	<u>68,900</u>
Impairment		
At 1 January 2019	-	-
At 31 December 2019	<u>-</u>	<u>-</u>
Net book value		
At 31 December 2019	<u>68,900</u>	<u>68,900</u>
At 31 December 2018	<u>68,900</u>	<u>68,900</u>

Investments in subsidiaries are held at cost less accumulated impairment losses.

	Other investments (Listed) £000	Total £000
Cost		
At 1 January 2019	790	790
Divestment	(25)	(25)
At 31 December 2019	<u>765</u>	<u>765</u>
Fair value adjustment		
At 1 January 2019	68,839	68,839
Fair value adjustment	3,275	3,275
At 31 December 2019	<u>72,114</u>	<u>72,114</u>
Net book value		
At 31 December 2019	<u>72,879</u>	<u>72,879</u>
At 31 December 2018	<u>69,629</u>	<u>69,629</u>

The fair value has been arrived at on the basis of the share price as at the balance sheet date for both years: 31 December 2019 - INR 2,175.45, 31 December 2018 - INR 1,907.25.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

14 Investments (continued)

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

Company	Country of Incorporation	Principal activity	Class and percentage of shares held
SKF India Limited Mahatma Gandhi Memorial Building Netaji Subhash Road Mumbai 400 002.	India	Bearing manufacturer	Ordinary shares 6.33%
Cooper Roller Bearings Company Limited Wisbech Road Kings Lynn Norfolk PE30 5JX	United Kingdom	Bearing manufacturer	Ordinary shares 100%

15 Inventories

	2019 £000	2018 £000
Raw materials and consumables	11,207	11,065
Work in progress	4,780	5,024
Finished goods	5,741	4,511
	<u>21,728</u>	<u>20,600</u>

Stock values are stated net of a provision for net realisable value of £7,597,000 (2018: £7,457,000). The amount charged to expense for net realisable provisions during the year was £140,000 (2018: £nil). The amount of inventory charged to cost of sales during the year was £222,905,000 (2018: £208,227,000).

16 Trade and other debtors

	2019 £000	2018 £000
Trade debtors	28,036	28,905
Amounts owed by group undertakings	63,296	55,639
UK Corporation tax receivable	358	-
Other debtors	490	435
Deferred tax assets	1,034	1,002
Prepayments and accrued income	1,889	1,746
	<u>95,103</u>	<u>87,727</u>

Deferred tax assets include £11,827,000 (2018: £12,274,000) amounts falling due after more than one year.

Trade debtors are stated after provisions for impairment of £160,000 (2018: £440,000)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

17 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	8,324	11,139
Amounts owed to group undertakings	23,284	41,790
UK Corporation tax payable	-	3,334
Taxation and social security	991	856
Other creditors	2,189	2,470
Accruals and deferred income	13,486	10,752
Lease Liabilities	960	-
	<u>49,234</u>	<u>70,341</u>

18 Deferred tax assets and liabilities

	2019 £000	2018 £000
Deferred tax liability		
Accelerated capital allowances	(1,125)	(721)
Revaluation of investment	(14,125)	(13,079)
	<u>(15,250)</u>	<u>(13,800)</u>
Deferred tax asset		
Post employment benefits	13,821	12,594
Credit note reserve	5	9
Restructuring provision	2,458	2,199
	<u>16,284</u>	<u>14,802</u>
Disclosed on the balance sheet:		
Deferred tax asset	<u>1,034</u>	<u>1,002</u>
Deferred tax in the income statement		
General credit note reserve	4	-
Plant and Property	404	(34)
Pension - IAS19	478	1,136
Restructuring provision	(259)	(2,199)
	<u>627</u>	<u>(1,097)</u>
Deferred tax in other comprehensive income		
Deferred tax movement on actuarial gains & losses booked in equity	(1,705)	(1,051)
Loss/gain on fair value revaluation of investment	1,046	(530)
	<u>(659)</u>	<u>(1,581)</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

18 Deferred tax assets and liabilities (continued)

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000
Property, plant and machinery	-	-	(1,125)	(721)	(1,125)	(721)
Provisions for post - employment benefits	13,821	12,594	-	-	13,821	12,594
Trade debtors	5	9	-	-	5	9
Revaluation of investment	-	-	(14,125)	(13,079)	(14,125)	(13,079)
Restructuring provision	2,458	2,199	-	-	2,458	2,199
Tax assets/(liabilities)	16,284	14,802	(15,250)	(13,800)	1,034	1,002

Movement in deferred tax - current year

	1 Jan 2019	Recognised in income statement	Recognised in equity	31 Dec 2019
	£000	£000	£000	£000
Property, plant and machinery	(721)	(404)	-	(1,125)
Post - employment benefits	12,594	(478)	1,705	13,821
Credit note reserve	9	(4)	-	5
Revaluation of investment	(13,079)	-	(1,046)	(14,125)
Restructuring provision	2,199	259	-	2,458
	1,002	(627)	659	1,034

Movement in deferred tax - comparative year

	1 Jan 2018	Recognised in income Statement	Recognised in equity	31 Dec 2018
	£000	£000	£000	£000
Property, plant and machinery	(755)	34	-	(721)
Post - employment benefits	12,679	(1,136)	1,051	12,594
Credit note reserve	9	-	-	9
Revaluation of investment	(13,609)	-	530	(13,079)
Restructuring provision	-	2,199	-	2,199
	(1,676)	1,097	1,581	1,002

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

19 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 £1,764,000 (2018: £1,540,000). Outstanding contributions at the end of the year were £179,000 (2018: £56,000).

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.

Defined Benefit Scheme - Main Plan

Actuarial assumptions

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

	2019	2018
	%	%
Discount rate	1.9	2.9
Retail price inflation	2.9	3.6
Consumer price inflation	2.2	2.6
Increases to pensionable earnings	2.9	3.6
Increases to pensions in payment:		
- RPI/5%	2.8	3.3
- RPI/2.5%	1.9	2.2
Increases to pension in deferment	2.9	3.6

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:

	2019	2018
	Years	Years
Longevity at age 65 for current pensioners		
- Men	21.5	21.8
- Women	23.4	23.6
Longevity at age 65 for future pensioners		
- Men	22.8	22.6
- Women	24.9	24.6

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

19 Employee benefits (continued)

Reconciliation of scheme assets and liabilities:

	2019 Assets £000	2019 Liabilities £000	2019 Total £000	2018 Assets £000	2018 Liabilities £000	2018 Total £000
At 1 January	224,707	(297,090)	(72,383)	228,900	(299,433)	(70,533)
Benefits paid	(9,792)	9,792	-	(10,127)	10,127	-
Contributions by participants	56	(56)	-	58	(58)	-
Contributions by the employer	15,353	-	15,353	14,609	-	14,609
Current service cost	-	(6,127)	(6,127)	-	(5,797)	(5,797)
Past service cost	-	-	-	-	(2,650)	(2,650)
Interest	6,614	(8,553)	(1,939)	6,050	(7,803)	(1,753)
income/(expense)expense						
Remeasurement (gains)/losses	27,421	(36,252)	(8,831)	(14,779)	8,524	(6,255)
Contributions accounting differences	(5)	-	(5)	(4)	-	(4)
At 31 December	264,354	(338,286)	(73,932)	224,707	(297,090)	(72,383)

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

	2019			2018		
	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
	%	£000	£000	%	£000	£000
Discount rate	1.0	57,300	(72,600)	1.0	47,900	(63,300)
Salary growth	0.5	(7,500)	6,900	0.5	(6,500)	6,000
Pension increase	0.5	(10,200)	6,900	0.5	(9,500)	6,500
Life expectancy	Increase or decrease by 1 year	(13,200)	13,400	Increase or decrease by 1 year	(9,600)	9,300

Total cost recognised as an expense:

	2019 £000	2018 £000
Current service cost	6,127	5,797
Past service cost	-	2,650
Interest cost	1,939	1,753
	8,066	10,200

Current service cost charged to the Profit and Loss Account excludes contributions by members.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

19 Employee benefits (continued)

The fair value of the plan assets:

	2019 £000	2018 £000
Cash	1,624	4,661
Government bonds	38,476	42,612
Corporate bonds	112,345	85,623
Equity instruments	97,629	79,335
Property	14,280	12,476
	<u>264,354</u>	<u>224,707</u>

Return on plan assets:

	2019 £000	2018 £000
Interest income	6,614	6,050
Remeasurements	27,421	(14,779)
	<u>34,035</u>	<u>(8,729)</u>

The Company expects to contribute approximately £15.3m (2018: £16.0m) to the Main plan in the next financial year, which includes an increase to the deficit repair contributions from £7.8m to £8.9m per year from 6 April 2018, and an increase to salary - based employers contributions from 14.7% to 23.5% from 1 June 2018, as defined by the updated schedule of contributions.

Defined Benefit Scheme - Executive Plan

Actuarial assumptions

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

	2019 %	2018 %
Discount rate	1.9	2.9
Retail price inflation	2.9	3.6
Consumer price inflation	2.2	2.6
Increases to pensionable earnings	2.9	3.6
Increases to pensions in payment:		
- RPI/5%	2.8	3.3
- RPI/2.5%	1.9	2.2
Increases to pension in deferment	2.9	3.6

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:

	2019 Years	2018 Years
Longevity at age 60 for current pensioners		
- Men	27.4	28.5
- Women	28.4	29.6
Longevity at age 60 for future pensioners		
- Men	28.8	30.2
- Women	30.0	31.5

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

19 Employee benefits (continued)

Defined Benefit Scheme - Executive Plan (continued)

Reconciliation of scheme assets and liabilities:

	2019 Assets £000	2019 Liabilities £000	2019 Total £000	2018 Assets £000	2018 Liabilities £000	2018 Total £000
At 1 January	20,492	(21,035)	(543)	20,391	(22,787)	(2,396)
Benefits paid	(1,015)	1,015	-	(1,462)	1,462	-
Contributions by the employer	2,003	-	2,003	2,051	-	2,051
Current service cost	-	(100)	(100)	-	(216)	(216)
Interest income	612	(690)	(78)	532	(589)	(57)
Remeasurement losses/(gains)	1,818	(1,909)	(91)	(1,020)	1,095	75
At 31 December	23,910	(22,719)	1,191	20,492	(21,035)	(543)

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

	2019 Impact on defined benefit obligation			2018 Impact on defined benefit obligation		
	Change in assumption	Increase in assumption £000	Decrease in assumption £000	Change in assumption	Increase in assumption £000	Decrease in assumption £000
	%			%		
Discount rate	1.0	3,200	(4,000)	1.0	2,900	(3,700)
Salary growth	0.5	-	-	0.5	(100)	100
Pension increase	0.5	(400)	400	0.5	(400)	400
Life expectancy	Increase or decrease by 1 year	(1,000)	1,000	Increase or decrease by 1 year	(800)	800

Total cost recognised as an expense:

	2019 £000	2018 £000
Current service cost	100	216
Interest cost	78	57
	178	273

Current service cost charged to the Profit and Loss Account excludes contributions by members.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

19 Employee benefits (continued)

Defined Benefit Scheme - Executive Plan (continued)

The fair value of the plan assets:

	2019 £000	2018 £000
Cash	927	1,987
Government bonds	6,216	5,642
Corporate bonds	8,222	6,542
Equity instruments	8,545	6,321
	<u>23,910</u>	<u>20,492</u>

Return on plan assets:

	2019 £000	2018 £000
Interest income	612	532
Remeasurements	1,818	(1,020)
	<u>2,430</u>	<u>(488)</u>

The Company expects to contribute approximately £1.9m (2018: £2.0m) to the Executives plan in the next financial year.

For the Main Plan the IAS19 liabilities have been based on the initial results of the triennial actuarial valuation of the Plan as at 6 April 2017. 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:

	2019 £000	2018 £000
Current year contributions	1,764	1,540
	<u>1,764</u>	<u>1,540</u>

20 Called up share capital

Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid 37,200,000 (2018: 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 £nil per qualifying ordinary share (2018: £nil) were proposed by the Directors.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

21 Revaluation Reserve

	Land and Buildings revaluation reserve £000	Investments revaluation reserve £000	Total revaluation reserve £000
Balance at 1 January 2019	919	55,760	56,679
Increase in fair value of investments	-	5,502	5,502
Related deferred tax on fair value movements of investments	-	441	441
Release of revaluation reserve re SKF India Share Buyback	-	(1,804)	(1,804)
Balance at 31 December 2019	919	59,899	60,818

22 Commitments

Capital commitments

During the year ended 31 December 2019, the Company entered into contracts to purchase property, plant and equipment for £4,058,000 (2018: £1,586,000).

23 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	
	2019 £000	2018 £000	2019 £000	2018 £000
Other related parties	10,008	12,013	595	477
	10,008	12,013	595	477

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

23 Related parties (continued)

	Other related parties	
	2019	2018
	£000	£000
Purchases and other expenses		
Main Plan Current and Past Service + Interest Cost (Note 19)	8,066	10,200
Exec Plan Current Service + Interest Cost (Note 19)	178	273
GFRP Contributions (Note 19)	1,764	1,540
	<u>10,008</u>	<u>12,013</u>
Amount owed to		
Main & Exec Plan	416	421
GFRP Contributions (Note 19)	179	56
	<u>595</u>	<u>477</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.

24 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**24 Accounting estimates and judgements****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 reflects 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 19.

Trade receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the aging profile of receivables and historical experience. The Company applies IFRS 9 with the use of a forward - looking 'expected - loss' impairment model which indicates when the asset may not be recovered.

Restructuring expense

Restructuring provisions involve estimates of the timing and cost of the planned future activities where the most significant estimates relates to the costs necessary to settle employee severance/separation obligations, as well as the costs involved in site closure and other exit costs. These estimates are based on historical experience as well as the current status of negotiations with the affected parties and/or their representatives.

25 Subsequent Events*Livingston, Scotland*

On 24 January 2020, the SKF Group proposed consolidating its development footprint in Europe to existing sites in Sweden and France in order to speed up the development of its cloud-based condition monitoring technologies. Consequently, and subject to consultation with local employee representatives, SKF proposed to cease its development and supply chain activities in Livingston, Scotland. The proposal was confirmed with formal agreement reached between the Company and employee representatives on 12 March 2020. The development centre in Livingston which employs 35 people will cease by 31 December 2021, with the costs relating to the closure estimated at £3,448,000.

COVID-19

In March 2020, the World Health Organisation declared COVID-19 a global pandemic as a result of the spread of the virus into all regions of the world. This outbreak has impacted all aspects of the Company; its employees, customers, distributors, suppliers, shareholders, the society in which it operates and the wider SKF Group. To focus and coordinate business activities the Company has established a Crisis Management Team who are working closely with Site Executives and Union representatives. The Company has remained operational albeit at a lower capacity, taking lower demand levels into account. Work has continued to ensure sites remain safe places to work, with increased focus on personal hygiene, distancing and wellbeing. There has been particular focus on employee communication and engagement; through line manager contact, regular newsletters, team-briefs, employee focus groups and increased access to and content on the SKF Group Intranet, UK Portal.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)**26 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 2019 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.