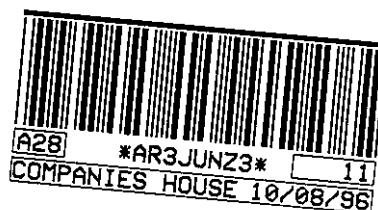


SKF (U.K.) LIMITED

REGISTRATION NO. 107367

**DIRECTORS' REPORT AND ACCOUNTS
WITH AUDITORS' REPORT**

31 DECEMBER 1995



DIRECTORS' REPORT

The directors present their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1995.

Principal Activity

The company's principal activity is the manufacture and sale of ball and roller bearings.

Business Review

The directors expect the general level of activity to continue at current or improved levels.

The company continues to rationalise its operations and maintain strict controls over spending. Increased sales and improved cash flow contributed to the higher profit achieved in the year. The company has but much emphasis on People Development during 1995.

Further redundancies are planned in 1996 and have been provided for in the 1995 result (see note 5).

Results for the year

Total sales for the year amounted to £143.4 million (1994 - £119.1 million).

The profit for the year after taxation was £7 629 000 (1994 - £3 307 000).

No interim ordinary dividend in respect of the year ended 31 December 1995 (1994 - £nil) has been paid during the year. The directors do not recommend payment of a final ordinary dividend (1994 - £nil).

The retained profit of £7 629 000 (1994 - £3 307 000) has been transferred to reserves.

Directors

The following were directors during the year.

T B Bertilsson	-	appointed 29 May 1995
R Jacobsson		
K V Thoren	-	resigned 29 May 1995
C F Trotman		

None of the directors had any notifiable interest in the shares of the company.

DIRECTORS' REPORT (CONTINUED)

The company has taken out directors' and officers' liability insurance under S310(3) of the Companies Act 1985 against liabilities in relation to the company for certain officers.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Fixed assets

The fixed assets of the company are shown in notes 8 and 9 to the accounts including the movements during the year.

Employees

In addition to regular company newsletters, a system of "Team Briefing" operates within the company for communicating news and information regarding the business and development of the company to all employees. "Team Briefing" includes reference to results and achievements and greatly facilitates two-way communication within the company.

A Joint Negotiating Committee exists and provides a forum for two-way communication and consultation. Feedback from representatives is taken on a regular basis so that opinions and suggestions of employees can be considered in relation to issues which may affect their interests.

Disabled persons in common with all others are given full consideration in respect of selection, continued employment, training, career development and promotion.

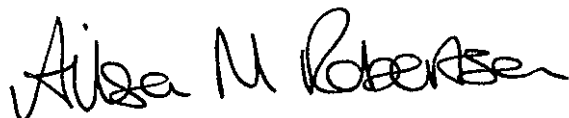
DIRECTORS' REPORT (CONTINUED)

Statutory dispensation

The company has an election in force under section 379 (A) of the Companies Act 1985 dispensing with:

- a) The laying of accounts and reports before the company in a General Meeting.
- b) The holding of an Annual General Meeting.
- c) The obligation to appoint auditors annually.

By order of the Board

A handwritten signature in black ink, appearing to read 'A M Robertson', written in a cursive style.

A M Robertson
Secretary

2 July 1996

Sundon Park Road
Luton
Bedfordshire
LU3 3BL

ARTHUR ANDERSEN

Auditors' report

Cambridge

To the Shareholders of SKF (UK) Limited:

We have audited the accounts on pages 5 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

The company is exempt from the requirement of Financial Reporting Standard 1 to include a cash flow statement as part of its accounts because the consolidated accounts of Trelanoak Limited, a company registered in England and Wales, incorporate the results of the company and include a consolidated cash flow statement.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1995, and of its profit and cash flows for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge
CB2 1LH

2 July 1996

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1995

	Notes	1995 £000	1994 £000
TURNOVER	2	143 423	119 144
COST OF SALES		(122 207)	(100 594)
		—	—
GROSS PROFIT		21 216	18 550
DISTRIBUTION COSTS		(10 080)	(11 188)
ADMINISTRATION COSTS		(3 854)	(2 765)
		—	—
OPERATING PROFIT		7 282	4 597
INVESTMENT INCOME	3	585	93
INTEREST PAYABLE AND SIMILAR CHARGES	4	(238)	(1 383)
		—	—
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	7 629	3 307
TAX ON PROFIT ON ORDINARY ACTIVITIES	7	-	-
		—	—
RETAINED PROFIT FOR THE FINANCIAL YEAR	16	7 629	3 307
		=====	=====

A statement of movements on reserves is given in note 16.

The accompanying notes are an integral part of this profit and loss account.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 DECEMBER 1995**

There are no recognised gains and losses other than the retained profit for the financial year and hence a statement of total recognised gains and losses has not been prepared.

**NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED
31 DECEMBER 1995**

	1995 £000	1994 £000
Reported profit on ordinary activities before taxation	7 629	3 307
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	128	132
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	<u>7 757</u>	<u>3 439</u>
Historical cost profit for the year retained after taxation	<u>7 757</u>	<u>3 439</u>

The accompanying notes are an integral part of this note of historical cost profits and losses.

BALANCE SHEET AS AT 31 DECEMBER 1995

	Notes	1995 £000	1994 £000
FIXED ASSETS			
Tangible assets	8	18 645	19 064
Investments	9	587	587
		<u>19 232</u>	<u>19 651</u>
CURRENT ASSETS			
Stocks	10	12 779	15 014
Debtors	11	42 078	30 553
Cash at bank and in hand		325	180
		<u>55 182</u>	<u>45 747</u>
CREDITORS - Amounts falling due within one year	12	(16 364)	(19 632)
NET CURRENT ASSETS		<u>38 818</u>	<u>26 115</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		58 050	45 766
CREDITORS - Amounts falling due after more than one year	13	(21 155)	(16 400)
Provisions for liabilities and charges	14	-	(100)
		<u>36 895</u>	<u>29 266</u>
CAPITAL AND RESERVES			
Called-up share capital	15	37 200	37 200
Share premium account	16	1 114	1 114
Revaluation reserve	16	3 694	3 694
Profit and loss account	16	(5 113)	(12 742)
		<u>36 895</u>	<u>29 266</u>

Signed on behalf of the Board

C F Trotman
Director


2 July 1996

The accompanying notes are an integral part of this balance sheet.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995

1 STATEMENT OF ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year is set out below.

a) Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain properties and in accordance with applicable accounting standards.

b) Tangible fixed assets

Land and buildings are shown at original historical cost or subsequent valuation. Land is not depreciated. Other fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:-

Freehold buildings	3%	per annum
Leasehold improvements	3%	per annum
Plant and equipment	6 - 25%	per annum

c) Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent reductions in value. Provisions for temporary fluctuations in value are made if material. Income is included (together with the related tax credit) in the accounts of the year in which it is receivable for both fixed and current asset investments.

d) Stocks

Stocks are stated at the lower of cost, including appropriate overheads, and net realisable value. Provision is made for slow moving or obsolete items where appropriate.

e) Turnover

Turnover represents invoiced sales net of VAT, returns and allowances.

f) Leasing

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)**g) Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits arising from group relief are recognised in the accounts of the surrendering and recipient companies.

Provision is made for deferred taxation to the extent that it is probable that a liability will crystallise in the foreseeable future.

h) Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign currency transactions entered into during the course of the year are translated at exchange rates approximating to those ruling on the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

i) Pensions

Details of the company's pension schemes and related accounting policies are shown in the notes to the accounts.

j) Revaluation reserve

Surpluses arising on the revaluation of individual fixed assets are credited to a non-distributable reserve known as the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account. On the disposal of a revalued fixed asset, any remaining revaluation surplus corresponding to the item is also transferred to the profit and loss account.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

k) Cash flow statement

Under the provision of Financial Reporting Standard Number 1, the company has not prepared a cash flow statement as the consolidated accounts of Trelanoak Limited, a company registered in England and Wales, incorporate the results of the company and include a consolidated cash flow statement.

2 TURNOVER

The company operates solely within the ball and roller bearing sector. 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.

3 INVESTMENT INCOME

	1995 £000	1994 £000
Dividend received from investments in other group undertakings	98	49
Interest receivable		
- from other group undertakings	361	-
- other	126	44
	<u>585</u>	<u>93</u>
	=====	=====

4 INTEREST PAYABLE AND SIMILAR CHARGES

	1995 £000	1994 £000
Interest payable on bank borrowings and other loans repayable within 5 years not by instalments		
- bank borrowings	91	495
- loans from other group undertakings	147	888
	<u>238</u>	<u>1 383</u>
	=====	=====

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1995 £000	1994 £000
The profit on ordinary activities before taxation is stated after charging or (crediting) the following:-		
Staff costs (note 6)	14 847	15 000
Depreciation (note 8)	1 886	1 928
Hire of plant and machinery	1 030	1 199
Other operating income	(461)	(693)
Auditors' remuneration		
- audit services	46	58
- non audit services	18	29
Redundancy	1 460	740

The redundancy costs are allocated as follows:

Cost of sales	648	334
Distribution costs	677	243
Administration costs	135	163
	<hr/>	<hr/>
	1 460	740
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

6 DIRECTORS AND EMPLOYEES

The average weekly number of persons (including executive directors) employed during the year was:-

	1995 Number	1994 Number
Production	416	431
Sales	135	139
Distribution	40	44
Administration	58	73
	<u>649</u>	<u>687</u>

Their aggregate remuneration comprised:

	1995 £000	1994 £000
Wages and salaries	13 217	12 949
Social security costs	1 066	1 076
Other pension costs (see note 20)	564	975
	<u>14 847</u>	<u>15 000</u>

The above includes the following emoluments, including pension contributions in respect of directors:-

	1995 £000	1994 £000
Aggregate Emoluments	<u>80</u>	<u>84</u>

Directors emoluments excluding pension contributions included:-

Highest paid director	<u>63</u>	<u>43</u>
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NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

6 DIRECTORS AND EMPLOYEES (CONTINUED)

	1995 Number	1994 Number
Directors received emoluments (excluding pension contributions) in the following ranges:		
Up to £5 000	2	4
£25 001 - £30 000	-	1
£60 001 - £65 000	1	1
	=====	=====

7 TAXATION

The company has cumulative brought forward losses for tax purposes amounting to approximately £16 million (1994 - £26 million) available to set against future taxable profits. These losses are in excess of the cumulative timing differences which have arisen principally through capital allowances and accordingly there is no potential deferred tax liability.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

8 FIXED ASSETS - TANGIBLE ASSETS

Cost or valuation	Freehold land and buildings £000	Leasehold improvements £000	Plant and equipment £000	Total £000
At 1 January 1995	10 591	762	22 781	34 134
Additions at cost	-	-	1 739	1 739
Disposals	-	-	(857)	(857)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1995	10 591	762	23 663	35 016
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 1995	4 161	78	10 831	15 070
Charge for the year	233	23	1 630	1 886
Disposals	-	-	(585)	(585)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1995	4 394	101	11 876	16 371
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 1995	6 197	661	11 787	18 645
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1994	6 430	684	11 950	19 064
	<hr/>	<hr/>	<hr/>	<hr/>

Freehold land and buildings would have been included on an historical cost basis at:

	1995 £000	1994 £000
Cost	6 184	6 184
Aggregate depreciation	(2 892)	(2 764)
	<hr/>	<hr/>
Net book value	3 292	3 420
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

9 FIXED ASSETS - INVESTMENTS

	1995 £000	1994 £000
Unlisted trade investments		
- Investments in group undertakings	10	10
- Other	577	577
	<hr/>	<hr/>
	587	587
	<hr/>	<hr/>

10 STOCKS

	1995 £000	1994 £000
Raw materials and consumables	73	123
Work in progress	4 706	3 206
Finished goods	8 000	11 685
	<hr/>	<hr/>
	12 779	15 014
	<hr/>	<hr/>

In the opinion of the directors the replacement cost of stocks does not differ materially from the balance sheet amounts.

11 DEBTORS

	1995 £000	1994 £000
Trade debtors	17 491	21 307
Amounts owed by other group undertakings	24 072	8 152
Other debtors	103	301
Prepayments and accrued income	412	793
	<hr/>	<hr/>
	42 078	30 553
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

12 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1995 £000	1994 £000
Bank loans and overdrafts	-	8 000
Trade creditors	852	1 088
Amounts owed to other group undertakings	8 239	1 140
Taxation and social security	352	350
Other creditors	1 494	1 885
Accruals and deferred income	5 427	7 169
	<hr/>	<hr/>
	16 364	19 632
	<hr/> <hr/>	<hr/> <hr/>

13 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1995 £000	1994 £000
Amounts owing to other group undertakings	21 155	16 400
	<hr/> <hr/>	<hr/> <hr/>

14 PROVISIONS FOR LIABILITIES AND CHARGES

	1995 £000	1994 £000
Site re-organisation brought forward	100	460
Profit and loss account	(100)	(170)
Expenditure in the year	()	(190)
	<hr/>	<hr/>
Site re-organisation carried forward	-	100
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

15 CALLED-UP SHARE CAPITAL

	1995 £000	1994 £000
Authorised, allotted, called-up and fully paid		
37,200,000 ordinary shares of £1 each	37 200	37 200

16 RESERVES

	Share premium £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At 1 January 1995	1 114	3 694	(12 742)	(7 934)
Profit for the year	-	-	7 629	7 629
At 31 December 1995	1 114	3 694	(5 113)	(305)

17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1995

	1995 £000	1994 £000
Profit for the financial year	7 629	3 307
Opening shareholders' funds	29 266	25 959
Closing shareholders' funds	36 895	29 266

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

18 LEASE OBLIGATIONS

At 31 December 1995 the company had annual commitments under operating leases as follows:

	1995 Land and buildings £000	1995 Other £000	1994 Land and buildings £000	1994 Other £000
Operating leases which expire:				
Within 1 year	-	65	3	120
In the 2nd to 5th year	-	261	-	256
Over 5 years	488	-	509	-
	<hr/>	<hr/>	<hr/>	<hr/>
	488	326	512	376
	<hr/>	<hr/>	<hr/>	<hr/>

Leases on land and buildings are subject to rent reviews.

19 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

- 1) At 31 December 1995 unprovided authorised capital expenditure amounted to £2,243,000 (1994 - £2,319,000) of which contracts have been placed for £543,000 (1994 - £1,022,000).
- 2) The company has contingent liabilities in respect of guaranteed loans of fellow SKF subsidiaries amounting to £466 000 (1994 - £471 000) and in respect of other companies amounting to £140 000 (1994 - £200 000).

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

20 PENSION ARRANGEMENTS

Pension Costs and Other Post-Retirement Benefits

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are either externally funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds, or are unfunded. Differences between amounts charged to the profit and loss accounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

The group provides pension arrangements to the majority of full time employees through two defined benefit schemes and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

Details of the most recent actuarial valuations of the principal schemes are as follows:-

<u>Plan</u>	<u>Pension Plan</u>	<u>Executive Plan</u>
Valuations conducted at:-	01.11.93	31.05.96
Method of Valuation	Projected Unit Method	Projected Unit Method
Main assumptions (% pa):		
- rate of increase in salaries	6.5%	7.0%
- interest rate	8.5%	8.5%
- rate of dividend increase	4.0%	N/A
Results:		
- market value of scheme assets (£)	31 054 000	1 458 000
- level of funding (%)	104.1%	110.1%

The surplus on the Pension Plan and Executive Plan will be eliminated as a result of lower contributions.

The pension cost charge for the year for defined benefit schemes was £564 000 (1994 - £975 000). The significant change in cost over the previous year is due to lower contribution levels.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)**20 PENSION ARRANGEMENTS (CONTINUED)**

The company also operates a special pensions scheme which caters for pensions augmented or wholly provided by the company. The estimated unfunded liability in respect of past service amounts to £300 000 (1994 - £400 000) which is being funded over a period not exceeding 20 years.

21 ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of Aktiebolaget SKF which is incorporated in Sweden.

The parent of the smallest group for which group accounts are prepared and of which the company is a member is Trelanoak Limited, a company registered in England and Wales. The parent of the largest group for which group accounts are prepared and of which the company is a member is Aktiebolaget SKF, incorporated in Sweden. Copies of both these group accounts can be obtained from SKF (U.K.) Limited, Sundon Park Road, Luton, Bedfordshire, LU3 3BL.