

SKF (U.K) Limited

Annual Report and Financial Statements
Registered number 00107367
31 December 2020



SKF (U.K) LIMITED

1

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

	Page
Strategic Report	2
Directors' Report	6
Statement of Directors' responsibilities in respect of the financial statements	11
Independent auditors' report to the members of SKF (U.K) Limited	12
Profit and Loss Account and Statement of Comprehensive Income	16
Balance Sheet	17
Statement of Changes in Equity	18
Notes to the financial statements	19

SKF (U.K) LIMITED

2

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

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 declined throughout the year with a decrease of 20% over 2019 levels. This was mainly due to the significant negative impact on demand from the end of March as a result of the COVID-19 pandemic. However, despite this the Company's transformation into a more customer-focused, innovative, and lean business continued, and as a result the Company managed to deliver stable results.

Profit before tax for 2020 was though significantly lower than the previous year, as 2019 included a dividend of £20.0m received from Cooper Roller Bearings Company Limited. During the year the Company maintained focus on ensuring the safety and wellbeing of employees and on implementing measures to reduce costs and increase flexibility.

The Company remains in a strong financial position. As at 31 December 2020, the Company had net assets of £151.8m (2019: £142.0m).

For 2022 the demand for the Company's products and services is expected to be higher. However, the industries and regions in which the Company operates are still impacted by effects related to the spread of the COVID-19 virus.

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 declined compared to previous year falling below Group target, with reduced sales in most business areas primarily due to the COVID-19 global pandemic. Both operating margin and return on capital employed were slightly below previous year and target due to the negative impact of the restructuring costs. Net working capital increased slightly due to the adverse impact of level of trade receivables compared to sales, whilst remaining well below target. Net debt / equity decreased with the positive impact of increased financial assets and lower post-employment benefit.

	Target %	2020 %	2019 %
Organic growth	5	(20)	3
Operating margin	14	5	6
Return on capital employed	16	5	7
Net working capital	<25	17	15
Net debt/equity	<80	5	33

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.

SKF (U.K) LIMITED**3****STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (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, ensuring that all decisions are taken for the long-term. The Company acknowledges that the business can only grow and prosper if it understands and respects the views of the Company's various stakeholders to whom we are accountable as well as the environment in which we operate. How the Company approaches and coordinates this, the way it behaves to incorporate a set of shared values, ethical business culture and behavioural expectations, is defined 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. For further details about how these relationships are built and maintained please refer to the 'Customers, Distributors and Suppliers' section in the Directors' Report starting on page 9.

As part of the ongoing specific engagement with our customers, 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 web site.

When preparing the bi-annual reports 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

Ensuring a safe working environment and promoting the health, personal development, and well-being of employees at SKF is always in focus but the challenges of 2020 under threat of the Covid-19 pandemic has brought intensified emphasis. The Directors formed a Crisis Management Team (CMT) to coordinate the combined resources of the Company in directing and safeguarding operations for our employees and business partners, and the CMT continues to closely monitor developments and plan accordingly. For further details of the impact of Covid-19 and the response activities, please refer to the Directors' report starting on page 9.

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 9.

SKF (U.K) LIMITED**4****STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)****Section 172(1) Statement (continued)***Responsibility towards society and the environment*

The Company's ability to profitably manage and grow its business in an ethical manner forms the foundation of its place in the communities in which it operates, establishing and maintaining relationships which are based on trust, transparency, and mutual respect.

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.

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 2020, page 98, 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 4 of the SKF Group Annual Report 2020.

The Company's governance structure is aligned with that of the SKF Group as described within its Annual Report on page 113. 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.

SKF (U.K) LIMITED

5

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Results for the year

Total sales for the year amounted to £219.8 million (2019 - £274.3 million).

The profit for the financial year was £10.2 million (2019 - £33.7 million). The Company continues to control spend and operate good pricing policies within the market.

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

DocuSigned by:

Michael Crean

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M R Crean
Director

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SKF (U.K) LIMITED

6

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020.

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
P J Owen
T M Bates

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 2020 (2019: £nil million). The Directors do not recommend a final dividend (2019: £nil).

Business review and future developments

The Strategic Report on pages 2 - 5 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.

SKF (U.K) LIMITED

7

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (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 2020 the Company spent £7.9 million on research and development (2019: £6.6 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.

Greenhouse gas emissions and energy consumption

Reasons for change in emissions

Manufacturing Operations

Disruption to the manufacturing operations has seen a reduction due to attendance by the workforce due to self-isolation required during the Covid-19 pandemic. This has also seen short term whole shift stoppages during the year.

In addition, due to a previously announced site closure, there has been a planned ramp down in manufacturing output at our Stonehouse facility.

Business Travel

Covid-19 pandemic has required mandatory home working. Our offsite sales & service engineers have therefore reduced their travel significantly during the year, utilising other methods of business interaction.

Employee commuting / location

For most of the pandemic period, the Company has had around 200 employees homebased, with a shift of energy consumption that cannot be quantified accurately.

Degree days

The winter period has been colder than the reference period, with buildings requiring more heat to maintain a suitable working temperature.

Base Year

The Company have chosen the period which aligns with the last reported CRC (Carbon Reduction Commitment) data for which SKF (U.K) Limited holds an annual report with relevant quantitative information.

Targets

Aktiebolaget SKF, the Company's global parent company has a target to be carbon neutral by 2030 with scope 1 and 2 emissions to be net zero. The UK sites, which are driven by separate global business units are each engaged in their proportion of achieving this requirement. Additionally, targeting a reduced CO2 level for vehicles in the UK vehicle fleet, towards zero emissions by 2030.

SKF (U.K) LIMITED**8****DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)****Greenhouse gas emissions and energy consumption (continued)****Intensity Measurement**

The Company has chosen tonnes CO₂ / £m Sales as our intensity measurement of our manufacturing operation. Additionally, we use kgCO₂ per mile travelled, to seek both different ways to conduct our business, whilst aiming to tighter define the make-up of our fleet as we move towards the removal of petrol & diesel vehicles in line with the UK removal from sale of these types from 2030.

Comparisons

Data used April 2018 - April 2019 and January 2020 - December 2020 Energy usage, greenhouse gas emissions and intensity ratio.

	Comparison period (01/04/18 - 31/03/19)	Current reporting period (01/01/20 - 31/12/20)	% change
Total energy use covering electricity, gas and transport (kWh)	31,901,163	27,383,459	-14.2
Total emissions generated through combustion of gas (tCO ₂ e)	1,952	2,038	4.4
Total emissions generated through use of purchased electricity (tCO ₂ e)	5,359	3,904	-27.2
Total emissions generated through use of other fuels (tCO ₂ e)	30	26	-13.3
Total emissions generated through business travel (tCO ₂ e)	286	89	-68.9
Total gross emissions (tCO ₂ e)	7,627	6,057	-20.6
Intensity ratio (tCO ₂ e / £m) sales		27.554	
Intensity ratio (kgCO ₂ / mile) transport	0.253	0.261	3.440

Electricity

Electricity purchased for own consumption amounts to 16.8 GW.

The Company does not currently have any renewable electricity generated from its own source and therefore no electricity has been exported to the grid.

Heat

The Company has not generated any heat.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2019: £nil).

SKF (U.K) LIMITED**9****DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)****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.

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 able 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.

SKF (U.K) LIMITED**10****DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)****Stakeholder Engagement (continued)***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

The COVID-19 pandemic has changed the world and created a new normal. The Company's strategic direction remains but has been accelerated in many areas. During the COVID-19 pandemic, the Company has worked according to the following priorities: Protecting the health and safety of employees and their families, following all applicable guidance and requirements from relevant authorities, and protecting SKF customers by keeping workplaces safe and maintaining production.

The industries and regions in which the Company operates have been impacted by the effects related to the spread of COVID-19. Due to this there have been uncertainties in demand and revenue growth which has led the Company to perform several initiatives to reduce costs. As a result of the ongoing pandemic the Company received grants through the Coronavirus Job Retention Scheme, these have been accounted for in accordance with IAS 20 as a deduction of the related expense.

Besides the deeply saddening suffering that so many people and businesses have had to endure, the pandemic has also proven to be a catalyst for change and the use of digitalisation. The Company pivoted quickly in face of the COVID-19 crisis to ensure continued delivery of the highest quality engineering support to its customers in a time of limited and restricted travel.

Both the SKF Group and Company continue in 2021 to have a strong operating result despite a sharp fall in turnover. The Company continues to adopt the going concern basis in preparing its financial statements.

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 5. 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, PricewaterhouseCoopers LLP remain in office as auditors for the financial year 2020. However, the Board expect to appoint Deloitte as auditors ahead of the 2021 audit process.

SKF (U.K) LIMITED**11****STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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's 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:

DocuSigned by:

Michael Crean

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M R Crean
Director

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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 2020 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 2020; the Profit and Loss Account, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and the Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' report for the year ended 31 December 2020 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 the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety (including safety of parts produced) and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the manipulation of financial reporting through the passing of journals. Audit procedures performed by the engagement team included:

- Enquiring with management and those charged with governance around actual and potential litigation and claims
- Enquiring with Finance, Tax and Environment, Health and Safety staff to identify any instances of non-compliance with laws and regulations
- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness and performing unpredictable audit procedures focused on considering the legitimacy of suppliers
- Reviewing minutes of board of director meetings
- Reviewing management's tax calculation
- Reviewing financial statement disclosures and testing to supporting documentation

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
29 September 2021

SKF (U.K) LIMITED**16****PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 £000	2019 £000
Turnover	2	219,822	274,321
Cost of sales		<u>(188,655)</u>	<u>(240,430)</u>
Gross profit		31,167	33,891
Distribution costs		(1,519)	(1,681)
Administrative expenses		(12,798)	(14,858)
Restructuring costs	4	<u>(6,566)</u>	<u>(731)</u>
Operating profit	3	10,284	16,621
Income from other fixed asset investments	7	3,686	20,497
Other interest receivable and similar income	8	51	339
Interest payable and similar expenses	9	<u>(2,392)</u>	<u>(2,359)</u>
Profit before taxation		11,629	35,098
Tax on profit	10, 18	(1,403)	(1,406)
Profit for the financial year		<u>10,226</u>	<u>33,692</u>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

		2020 £000	2019 £000
Profit for the financial year		<u>10,226</u>	<u>33,692</u>
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements on defined benefit pension plan	19	18,696	(8,922)
Fair value adjustment to investment carrying value	21	(21,383)	5,502
Income tax on items that will not be reclassified to profit or loss		<u>496</u>	<u>1,364</u>
Other comprehensive expense for the year, net of income tax		<u>(2,191)</u>	<u>(2,056)</u>
Total comprehensive income for the year		<u>8,035</u>	<u>31,636</u>

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

The notes on pages 19 to 46 form an integral part of these financial statements.

SKF (U.K) LIMITED**17****BALANCE SHEET AS AT 31 DECEMBER 2020**

	Note	2020 £000	2019 £000
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	19,096	17,693
Right of use assets	13	2,337	2,939
Investments	14	122,623	141,779
		<u>144,056</u>	<u>162,411</u>
Current assets			
Inventories	15	19,807	21,728
Trade and other receivables - including £8,355,000 (2019: £11,827,000) amounts falling due after more than one year	16	88,986	95,103
Cash and cash equivalents		556	626
		<u>109,349</u>	<u>117,457</u>
Creditors: amounts falling due within one year	17	(37,087)	(49,234)
Net current assets		<u>72,262</u>	<u>68,223</u>
Total assets less current liabilities		<u>216,318</u>	<u>230,634</u>
Provisions for liabilities			
Pension liabilities	19	(45,642)	(72,741)
Other provisions	4	(17,344)	(14,002)
Lease liabilities	13	(1,525)	(1,923)
		<u>(64,511)</u>	<u>(88,666)</u>
Net assets		<u>151,807</u>	<u>141,968</u>
Capital and reserves			
Called up share capital	20	37,200	37,200
Share premium account		1,114	1,114
Other reserves	21	43,815	60,818
Profit and loss account		69,678	42,836
Total shareholders' funds		<u>151,807</u>	<u>141,968</u>

These financial statements on pages 16 to 46 were approved by the board of Directors on
and were signed on its behalf by:

2021

DocuSigned by:

Michael Crean

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M R Crean
Director

Company registered number: 00107367

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SKF (U.K) LIMITED**18****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020**

	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 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
Balance at 1 January 2020	37,200	1,114	60,818	42,836	141,968
Total comprehensive income for the year					
Profit for the financial year	-	-	-	10,226	10,226
Other comprehensive expense	-	-	(18,807)	16,616	(2,191)
Total comprehensive income for the year	-	-	(18,807)	26,842	8,035
Revaluation reserve adj on disposal of SKF India Shares	-	-	1,804	-	1,804
Dividends paid	-	-	-	-	-
Balance at 31 December 2020	37,200	1,114	43,815	69,678	151,807

SKF (U.K) LIMITED**19****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020****1 ACCOUNTING POLICIES****Basis of preparation**

SKF (U.K) Limited (the "Company") is a private company limited by shares. The Company is incorporated and domiciled in the UK and registered in England and Wales. The registered number is 00107367 and the registered office is Sundon Park Road, Luton, Bedfordshire, LU3 3BL.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using the Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition and measurement requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("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' and related notes;
- 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.

SKF (U.K) LIMITED**20****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****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 and amended standards adopted

The Company has applied where applicable the following standards and amendments for the first time for their annual reporting period commencing 1st January 2020:

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to References to the Conceptual Framework in IFRS Standards

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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.

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.

SKF (U.K) LIMITED**21****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****1 ACCOUNTING POLICIES (CONTINUED)****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.

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.

SKF (U.K) LIMITED**22****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****1 ACCOUNTING POLICIES (CONTINUED)****Leases (continued)**

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 cost.

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.

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.

SKF (U.K) LIMITED**23****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****1 ACCOUNTING POLICIES (CONTINUED)****Intangible assets and goodwill (continued)***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.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Impairment (continued)***Non-financial assets*

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

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.

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.

SKF (U.K) LIMITED**25****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****1 ACCOUNTING POLICIES (CONTINUED)****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.

Expenses*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.

SKF (U.K) LIMITED**26****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****1 ACCOUNTING POLICIES (CONTINUED)****Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or Other Comprehensive Income, in which case it is recognised directly in Equity or Other Comprehensive Income.

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

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

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

Government grants

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

Government grants relating to costs are deferred and recognised in the 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.

SKF (U.K) LIMITED**27****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****1 ACCOUNTING POLICIES (CONTINUED)****Employee Benefits (continued)***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

	2020 £000	2019 £000
Sale of goods	209,139	264,479
Rendering of services	10,683	9,842
Total turnover	<u>219,822</u>	<u>274,321</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.

SKF (U.K) LIMITED**28****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****3 Operating Profit**

This is stated after (crediting)/charging:

	2020	2019
	£000	£000
Net loss on disposals of tangible fixed assets	70	-
Depreciation and amounts written off tangible assets	1,957	1,883
Depreciation and amounts written off right of use assets	916	1,014
Amortisation of intangible assets	-	52
Research and development costs	7,925	6,628
Government grants	(1,490)	(292)
Auditors' remuneration for audit of these financial statements	92	70
Net foreign currency exchange differences	616	129

Amounts payable to PricewaterhouseCoopers LLP by the Company in respect of non - audit related assurance services were £nil (2019: £nil).

Government grants includes £1,421,000 (2019 : £nil) in respect of the UK Government Coronavirus Job Retention Scheme (CJRS). Payments received have been credited to the Profit and Loss account against Cost of Sales and Administrative Expenses.

4 Restructuring costs

During the year the Company provided for additional provisions in relation to restructuring amounting to £6,566,000 which effected 62 employees during the year, 36 which were following the decision by the Company to cease its development and supply chain activities in Livingston, Scotland. The current total provision in relation to restructuring is £15,806,000.

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	
	2020	2019
Production	538	593
Sales and distribution	91	96
Administration	249	222
	878	911

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£000	£000
Wages and salaries	35,832	41,485
Social security costs	3,258	3,839
Other pension costs	9,080	7,991
	48,170	53,315

SKF (U.K) LIMITED**29****NOTES TO THE FINANCIAL STATEMENTS - 31 December 2020 (CONTINUED)****6 Directors' remuneration**

	2020 £000	2019 £000
Directors' remuneration	552	631
Amounts receivable under long term incentive schemes	73	96
Company contributions to defined contribution pension plan	39	41
Company contributions to defined benefit pension plans	52	154
Compensation for loss of office	100	-

The emoluments of the highest paid Director were £351,615 (2019: £349,473). Company pension contributions made on their behalf were £34,198 (2019: £37,988), and the accrued pension benefit at the end of the year was £nil (2019: £nil). During the year, the highest paid Director received Class B shares of AB SKF valued at £39,890 (2019: £31,773), awarded under the Performance Share Programme (PSP) incentive scheme.

	Number of Directors	
	2020	2019
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution pension plan	3	3
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	1	2

7 Income from other fixed asset investments

	2020 £000	2019 £000
Dividend received - Investment in subsidiary	-	20,000
Dividend received - Other Investment	3,686	497
	<u>3,686</u>	<u>20,497</u>

8 Other interest receivable and similar income

	2020 £000	2019 £000
Interest receivable from fellow group companies	50	35
Other interest	1	304
Total interest receivable and similar income	<u>51</u>	<u>339</u>

SKF (U.K) LIMITED**30****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****9 Interest payable and similar expenses**

	2020	2019
	£000	£000
Bank Loans and overdrafts	42	51
Lease interest expense	88	109
Net interest cost on post - employment benefits	1,259	2,017
Other interest expense	37	-
Interest payable to fellow group companies	155	173
Foreign exchange loss	811	9
Total other interest payable and similar charges	<u>2,392</u>	<u>2,359</u>

10 Tax on profit**Recognised in the profit and loss account**

	2020	2019
	£000	£000
UK corporation tax		
Current tax on profit for the year	151	678
Adjustments in respect of prior years	(14)	101
Total current tax	<u>137</u>	<u>779</u>
Deferred tax		
Origination and reversal of temporary differences	1,266	2,053
Change in tax rate	-	(1,426)
Total deferred tax	<u>1,266</u>	<u>627</u>
Current tax charge for the year	<u>1,403</u>	<u>1,406</u>

Tax relating to items charged or credited to other comprehensive income

	2020	2019
	£000	£000
Current tax:		
Reversal of SNFA historical tax balance	-	(705)
	<u>-</u>	<u>(705)</u>
Deferred tax:		
Remeasurements of defined benefit liability	3,567	(1,705)
Tax on fair value adjustment re investment in SKF India	(4,063)	1,046
	<u>(496)</u>	<u>(659)</u>
	<u>(496)</u>	<u>(1,364)</u>

SKF (U.K) LIMITED**31****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (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 (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

	2020 £000	2019 £000
Profit for the financial year	10,226	33,692
Total tax expense	<u>1,403</u>	<u>1,406</u>
Profit excluding taxation	11,629	35,098
Tax using the UK corporation tax rate of 19% (2019: 19%)	2,211	6,669
Dividends received	(700)	(3,883)
Non - deductible expenses	198	237
Change in corporation tax rate	-	(1,426)
Tax credits - Research and Development	(292)	(292)
Adjustments in respect of prior years	(14)	101
Total tax expense	<u>1,403</u>	<u>1,406</u>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would remain at 25%. At the balance sheet date, the proposal to increase the rate to 25% had not been substantively enacted, substantive enactment occurred on 24 May 2021, therefore, 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 increase the tax expense for the period by £1,491,000, to decrease the deferred tax asset by £1,491,000.

SKF (U.K) LIMITED**32****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****11 Intangible assets**

	Development Costs £000	Intellectual Property £000	Total £000
Cost			
Balance at 1 January 2020	63	300	363
Balance at 31 December 2020	<u>63</u>	<u>300</u>	<u>363</u>
Accumulated amortisation			
Balance at 1 January 2020	63	300	363
Balance at 31 December 2020	<u>63</u>	<u>300</u>	<u>363</u>
Net book value			
At 31 December 2020	<u>-</u>	<u>-</u>	<u>-</u>
As 31 December 2019	<u>-</u>	<u>-</u>	<u>-</u>

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

	2020 £000	2019 £000
Cost of sales	-	52
	<u>-</u>	<u>52</u>

SKF (U.K) LIMITED**33****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****12 Tangible assets**

	Land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost				
Balance at 1 January 2020	17,232	60,242	1,885	79,359
Additions	-	240	3,199	3,439
Transfers	-	1,541	(1,541)	-
Disposals	(558)	(1,799)	-	(2,357)
Reclassification	(75)	(105)	180	-
Balance at 31 December 2020	<u>16,599</u>	<u>60,119</u>	<u>3,723</u>	<u>80,441</u>
Accumulated Depreciation				
Balance at 1 January 2020	10,674	50,992	-	61,666
Depreciation charge for the year	441	1,516	-	1,957
Disposals	(503)	(1,775)	-	(2,278)
Balance at 31 December 2020	<u>10,612</u>	<u>50,733</u>	<u>-</u>	<u>61,345</u>
Net book value				
Balance at 31 December 2020	<u>5,987</u>	<u>9,386</u>	<u>3,723</u>	<u>19,096</u>
Balance at 31 December 2019	<u>6,558</u>	<u>9,250</u>	<u>1,885</u>	<u>17,693</u>

SKF (U.K) LIMITED**34****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****13 Right of Use Assets**

	Premises £000	Vehicles £000	Forklifts £000	Total £000
Cost				
Balance at 1 January 2020	2,169	1,714	70	3,953
Additions	209	42	-	251
Modifications	51	12	-	63
Balance at 31 December 2020	<u>2,429</u>	<u>1,768</u>	<u>70</u>	<u>4,267</u>

Accumulated Depreciation

Balance at 1 January 2020	381	621	12	1,014
Depreciation charge for the year	346	556	14	916
Balance at 31 December 2020	<u>727</u>	<u>1,177</u>	<u>26</u>	<u>1,930</u>

Net book value

At 31 December 2020	<u>1,702</u>	<u>591</u>	<u>44</u>	<u>2,337</u>
At 31 December 2019	<u>1,788</u>	<u>1,093</u>	<u>58</u>	<u>2,939</u>

Lease liabilities

	2020 £000	2019 £000
Current	764	960
Non Current	1,525	1,923
	<u>2,289</u>	<u>2,883</u>
Interest expense (included in interest payable & similar expenses)	88	109
Short - term lease expenses	144	157
Low - value asset lease expense	86	260
Variable lease payments not incl. in lease liability	197	41

Future Minimum lease payments are as follows:

	2020 £000	2019 £000
No later than one year	1,101	1,063
Later than one year and not later than five years	1,207	1,759
Later than five years	69	161
Total gross payments	<u>2,377</u>	<u>2,983</u>
Impact of finance expenses	(88)	(100)
Carrying amount of liability	<u>2,289</u>	<u>2,883</u>

SKF (U.K) LIMITED**35****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****14 Investments**

	2020 Investments in subsidiaries £000	2020 Other investments (Listed) £000	2020 Total £000	2019 Investments in subsidiaries £000	2019 Other investments (Listed) £000	2019 Total £000
Cost						
At 1 January	68,900	765	69,665	68,900	790	69,690
Divestment	-	-	-	-	(25)	(25)
At 31 December	68,900	765	69,665	68,900	765	69,665
Fair value adjustment						
At 1 January	-	72,114	72,114	-	68,839	68,839
Fair value adjustment	-	(19,156)	(19,156)	-	3,275	3,275
At 31 December	-	52,958	52,958	-	72,114	72,114
Net book value						
At 1 January	68,900	72,879	141,779	68,900	69,629	138,529
At 31 December	68,900	53,723	122,623	68,900	72,879	141,779

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

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 2020 - INR 1,705.35, 31 December 2019 - INR 2,175.45.

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%

SKF (U.K) LIMITED**36****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****15 Inventories**

	2020	2019
	£000	£000
Raw materials and consumables	10,375	11,207
Work in progress	2,786	4,780
Finished goods	6,646	5,741
	<u>19,807</u>	<u>21,728</u>

Stock values are stated net of a provision for net realisable value of £9,006,000 (2019: £7,597,000). The amount charged to expense for net realisable provisions during the year was £1,410,000 (2019: £140,000). The amount of inventory charged to cost of sales during the year was £187,418,000 (2019: £222,905,000).

16 Trade and other receivables

	2020	2019
	£000	£000
Trade debtors	27,282	28,036
Amounts owed by group undertakings	58,866	63,296
UK Corporation tax receivable	880	358
Other debtors	176	490
Deferred tax assets (see note 18)	264	1,034
Prepayments and accrued income	1,518	1,889
	<u>88,986</u>	<u>95,103</u>

Deferred tax assets include £8,355,000 (2019: £11,827,000) amounts falling due after more than one year.

Trade debtors are stated after provisions for impairment of £889,000 (2019: £160,000)

17 Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Trade creditors	8,969	8,324
Amounts owed to group undertakings	11,938	23,284
Taxation and social security	1,126	991
Other creditors	6,540	2,189
Accruals and deferred income	7,750	13,486
Lease Liabilities	764	960
	<u>37,087</u>	<u>49,234</u>

SKF (U.K) LIMITED**37****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****18 Deferred tax assets and liabilities**

	2020	2019
	£000	£000
Deferred tax liability		
Accelerated capital allowances	(1,229)	(1,125)
Revaluation of investment	(10,062)	(14,125)
	<u>(11,291)</u>	<u>(15,250)</u>
Deferred tax asset		
Post employment benefits	8,672	13,821
Credit note reserve	6	5
Restructuring provision	2,877	2,458
	<u>11,555</u>	<u>16,284</u>
Disclosed on the balance sheet:		
Deferred tax asset	<u>264</u>	<u>1,034</u>
Deferred tax in the income statement		
General credit note reserve	(1)	4
Plant and Property	104	404
Pension - IAS19	1,582	478
Restructuring provision	(419)	(259)
	<u>1,266</u>	<u>627</u>
Deferred tax in other comprehensive income		
Deferred tax gain/(loss) movement on actuarial gains & losses booked in equity	3,567	(1,705)
(Loss)/gain on fair value revaluation of investment	(4,063)	1,046
	<u>(496)</u>	<u>(659)</u>

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
	£000	£000	£000	£000	£000	£000
Property, plant and machinery	-	-	(1,229)	(1,125)	(1,229)	(1,125)
Provisions for post - employment benefits	8,672	13,821	-	-	8,672	13,821
Trade debtors	6	5	-	-	6	5
Revaluation of investment	-	-	(10,062)	(14,125)	(10,062)	(14,125)
Restructuring provision	2,877	2,458	-	-	2,877	2,458
Tax assets/(liabilities)	<u>11,555</u>	<u>16,284</u>	<u>(11,291)</u>	<u>(15,250)</u>	<u>264</u>	<u>1,034</u>

SKF (U.K) LIMITED**38****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****18 Deferred tax assets and liabilities (continued)****Movement in deferred tax - current year**

	1 Jan 2020	Recognised in income statement	Recognised in equity	31 Dec 2020
	£000	£000	£000	£000
Property, plant and machinery	(1,125)	(104)	-	(1,229)
Post - employment benefits	13,821	(1,582)	(3,567)	8,672
Credit note reserve	5	1	-	6
Revaluation of investment	(14,125)	-	4,063	(10,062)
Restructuring provision	2,458	419	-	2,877
	<u>1,034</u>	<u>(1,266)</u>	<u>496</u>	<u>264</u>

Movement in deferred tax - comparative 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
	<u>1,002</u>	<u>(627)</u>	<u>659</u>	<u>1,034</u>

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.

Pension benefits in the Executive plan, and those benefits earned up to 6 April 2012 in the Main Plan, are based on historic length of service and final salary. From 6 April 2012, benefits in the Main Plan are earned as a percentage of salary each year and revalued for the period to retirement.

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 £1,841,000 (2019: £1,764,000). Outstanding contributions at the end of the year were £315,000 (2019: £179,000).

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.

SKF (U.K) LIMITED**39****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****19 Employee benefits (continued)****Defined Benefit Scheme - Main Plan****Actuarial assumptions**

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

	2020	2019
	%	%
Discount rate	1.3	1.9
Retail price inflation	2.9	2.9
Consumer price inflation	2.2	2.2
Increases to pensionable earnings	2.9	2.9
Increases to pensions in payment:		
- RPI/5%	2.8	2.8
- RPI/2.5%	1.9	1.9
Increases to pension in deferment	2.9	2.9

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:

	2020	2019
	Years	Years
Longevity at age 65 for current pensioners		
- Men	21.6	21.5
- Women	23.6	23.4
Longevity at age 65 for future pensioners		
- Men	22.9	22.8
- Women	25.1	24.9

SKF (U.K) LIMITED**40****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****19 Employee benefits (continued)****Reconciliation of scheme assets and liabilities:**

	2020 Assets £000	2020 Liabilities £000	2020 Total £000	2019 Assets £000	2019 Liabilities £000	2019 Total £000
At 1 January	264,354	(338,286)	(73,932)	224,707	(297,090)	(72,383)
Benefits paid	(9,066)	9,066	-	(9,792)	9,792	-
Contributions by participants	54	(54)	-	56	(56)	-
Contributions by the employer	14,929	-	14,929	15,353	-	15,353
Current service cost	-	(7,163)	(7,163)	-	(6,127)	(6,127)
Past service cost	-	(76)	(76)	-	-	-
Interest income/(expense)	5,101	(6,400)	(1,299)	6,614	(8,553)	(1,939)
Remeasurement losses/(gains) - financial assumptions	-	(43,822)	(43,822)	-	(36,192)	(36,192)
Remeasurement gains/(losses) - demographic assumptions	-	(1,177)	(1,177)	-	1,601	1,601
Experience adjustments	42,545	21,962	64,507	27,421	(1,661)	25,760
Contributions accounting differences	11	1	12	(5)	-	(5)
At 31 December	<u>317,928</u>	<u>(365,949)</u>	<u>(48,021)</u>	<u>264,354</u>	<u>(338,286)</u>	<u>(73,932)</u>

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

	2020			2019		
	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	65,400	(83,800)	1.0	57,300	(72,600)
Salary growth	0.5	(6,700)	6,200	0.5	(7,500)	6,900
Pension increase	0.5	(14,400)	9,900	0.5	(10,200)	6,900
Life expectancy	Increase or decrease by 1 year	(15,700)	15,700	Increase or decrease by 1 year	(13,200)	13,400

When calculating the sensitivity of the defined benefit obligation, the same method has been applied as when calculating the defined benefit liability recognised in the balance sheet, varying the discount rate, salary growth and pension increases in turn. The analysis also shows the effects of changing the mortality assumption by weighting the base tables so as to increase or decrease life expectancies for a member currently aged 65 by one year. The weighting used for both plans are 88% to increase life expectancy and 114% to reduce life expectancy.

SKF (U.K) LIMITED**41****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****19 Employee benefits (continued)****Total cost recognised as an expense:**

	2020	2019
	£000	£000
Current service cost	7,163	6,127
Past service cost	76	-
Interest cost	1,299	1,939
	8,538	8,066

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

The fair value of the plan assets:

	2020	2019
	£000	£000
Cash	4,113	1,624
Government bonds with a quoted market price	37,652	38,476
Corporate bonds with a quoted market price	144,198	112,345
Equity instruments with a quoted market price	117,082	97,629
Property with a quoted market price	14,883	14,280
	317,928	264,354

Return on plan assets:

	2020	2019
	£000	£000
Interest income	5,101	6,614
	5,101	6,614

The Company expects to contribute approximately £15.0m 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.

	2020	2019
	%	%
Discount rate	1.3	1.9
Retail price inflation	2.9	2.9
Consumer price inflation	2.2	2.2
Increases to pensionable earnings	-	2.9
Increases to pensions in payment:		
- RPI/5%	2.8	2.8
- RPI/2.5%	1.9	1.9
Increases to pension in deferment	2.9	2.9

SKF (U.K) LIMITED**42****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****19 Employee benefits (continued)**

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:

	2020 Years	2019 Years
Longevity at age 60 for current pensioners		
- Men	28.0	27.4
- Women	29.6	28.4
Longevity at age 60 for future pensioners		
- Men	29.4	28.8
- Women	31.0	30.0

Defined Benefit Scheme - Executive Plan (continued)**Reconciliation of scheme assets and liabilities:**

	2020 Assets £000	2020 Liabilities £000	2020 Total £000	2019 Assets £000	2019 Liabilities £000	2019 Total £000
At 1 January	23,910	(22,719)	1,191	20,492	(21,035)	(543)
Benefits paid	(1,432)	1,432	-	(1,015)	1,015	-
Contributions by the employer	1,884	-	1,884	2,003	-	2,003
Current service cost	-	-	-	-	(100)	(100)
Interest income/expense	465	(425)	40	612	(690)	(78)
Remeasurement losses/(gains) - financial assumptions	-	(1,912)	(1,912)	-	(2,589)	(2,589)
Remeasurement gains/(losses) - demographic assumptions	-	(667)	(667)	-	1,074	1,074
Experience adjustments	1,639	204	1,843	1,818	(394)	1,424
At 31 December	<u>26,466</u>	<u>(24,087)</u>	<u>2,379</u>	<u>23,910</u>	<u>(22,719)</u>	<u>1,191</u>

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

	2020			2019		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
	%	£000	£000	%	£000	£000
Discount rate	1.0	3,100	(3,900)	1.0	3,200	(4,000)
Salary growth	0.5	-	-	0.5	-	-
Pension increase	0.5	(500)	500	0.5	(400)	400
Life expectancy	Increase or decrease by 1 year	(1,100)	1,000	Increase or decrease by 1 year	(1,000)	1,000

When calculating the sensitivity of the defined benefit obligation, the same method has been applied as when calculating the defined benefit liability recognised in the balance sheet, varying the discount rate, salary growth and pension increases in turn. The analysis also shows the effects of changing the mortality assumption by weighting the base tables so as to increase or decrease life expectancies for a member currently aged 65 by one year. The weighting used for both plans are 88% to increase life expectancy and 114% to reduce life expectancy.

SKF (U.K) LIMITED**43****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****19 Employee benefits (continued)****Total cost recognised as an expense:**

	2020	2019
	£000	£000
Current service cost	-	100
Interest cost	(40)	78
	<u>(40)</u>	<u>178</u>

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

Defined Benefit Scheme - Executive Plan (continued)**The fair value of the plan assets:**

	2020	2019
	£000	£000
Cash	1,381	927
Government bonds with a quoted market price	10,979	6,216
Corporate bonds with a quoted market price	8,741	8,222
Equity instruments with a quoted market price	5,365	8,545
	<u>26,466</u>	<u>23,910</u>

Return on plan assets:

	2020	2019
	£000	£000
Interest income	465	612
	<u>465</u>	<u>612</u>

The Company expects to contribute approximately £0.3m (2019: £1.9m) to the Executives plan in the next financial year.

For the Main Plan the IAS19 liabilities have been based on the results of the triennial actuarial valuation of the Plan as at 6 April 2020. 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 2019. 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:

	2020	2019
	£000	£000
Current year contributions	1,841	1,764
	<u>1,841</u>	<u>1,764</u>

SKF (U.K) LIMITED**44****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****20 Called up share capital****Share capital**

	2020	2019
	£000	£000
Allotted, called up and fully paid		
37,200,000 (2019: 37,200,000) Ordinary shares of £1 each	37,200	37,200

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 (2019: £nil) were proposed by the Directors.

21 Other reserves

	Land and Buildings revaluation reserve £000	Investments revaluation reserve £000	Total revaluation reserve £000
Balance at 1 January 2020	919	59,899	60,818
Revaluation reserve adjustment on disposal of SKF India shares 2019	-	-	-
Decrease in fair value of investments	-	(19,156)	(19,156)
Related deferred tax on fair value movements of investments	-	2,153	2,153
Balance at 31 December 2020	919	42,896	43,815

22 Commitments**Capital commitments**

During the year ended 31 December 2020, the Company entered into contracts to purchase property, plant and equipment for £3,036,000 (2019: £4,058,000).

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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Other related parties	10,339	10,008	730	595
	10,339	10,008	730	595

SKF (U.K) LIMITED**45****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (CONTINUED)****23 Related parties (continued)****Other related parties**

	2020	2019
	£000	£000
Purchases and other expenses		
Main Plan Current and Past Service + Interest Cost (Note 19)	8,538	8,066
Exec Plan Current Service + Interest Cost (Note 19)	(40)	178
GFRP Contributions (Note 19)	1,841	1,764
	<u>10,339</u>	<u>10,008</u>
Amount owed to		
Main & Exec Plan	415	416
GFRP Contributions (Note 19)	315	179
	<u>730</u>	<u>595</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.

SKF (U.K) LIMITED**46****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020 (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 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 2020 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.

26 Subsequent Events

No subsequent events to report.