SKF (U.K.) LIMITED

REGISTRATION NO. 107367

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2010.

Principal activity

The Company's principal activity is the manufacture and sale of ball and roller bearings and related services.

Business Review and Future Prospects

The Company delivered a very good performance in 2010 in all segments. Sales increased by 12%. The Company's ongoing cost reduction activities, combined with the improved volumes both in sales and manufacturing and the continued implementation of the SKF Group's strategy, had a positive effect on the Company's operating profit and operating margins. The steps taken in recent years to make the Company more robust is giving results which can be seen by the positive development in 2010.

As a result of the strong performance and the strategy for the SKF Group, new long-term financial targets were announced in October 2010 The main initiatives going forward to support the strategy and targets will be to accelerate profitable growth, to reduce costs and eliminate waste and to invest for growth.

The Company opened a new SKF Solution Factory during the year. The SKF Solution Factories gather SKF's expertise under one roof and are already proving beneficial for customers and distributors by making SKF's knowledge more readily accessible to them.

On 1 October 2010, the Company acquired the trade and assets of a fellow subsidiary undertaking, SKF Economos UK Limited, for a consideration equal to the net book value of the assets and liabilities acquired. Details are presented in note 23 to the financial statements.

The property at Sundon Park Road, Luton was valued at 31 December 2010 this gave an indicative existing use value of £7.3 million. However, within the financial statements the Company has not revalued this asset upwards in line with its accounting policy as described in note 1

Entering 2011 we expect to see a continued positive volume development However, we will face headwinds due to currency and higher raw material costs, adding to those already faced in the fourth quarter To support long-term profit and growth targets the SKF Group will step up investments in manufacturing, research and development and in additional sales and engineering resources.

Key performance indicators

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

DIRECTORS' REPORT (CONTINUED)

Risks and uncertainties in the business

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

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

Results for the year

Total sales for the year amounted to £202.8 million (2009 - £181 7 million) An improved level of activity has been achieved by most divisions.

The profit for the year after taxation was £25.4 million (2009 - £16.8 million). The Company continues to control spend and operate good pricing policies within the market.

An interim dividend in respect of the year ended 31 December 2010 of £36 65 million was paid during the year (2009 - £nil). The directors do not recommend payment of a final ordinary dividend (2009 - £nil)

Subsequent to the year end the directors have approved an interim ordinary dividend for the year ended 31 December 2011 of £22.0 million

Directors

The directors who served throughout the year and subsequently were as follows.

T B Bertilsson
R J Law
S L Smith

Disclosure of information to auditors

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

DIRECTORS' REPORT (CONTINUED)

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

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 three Health & Safety Committees who meet regularly and maintain effective communication with employees.

Employee consultation

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

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

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

SKF (U.K.) LIMITED

DIRECTORS' REPORT (CONTINUED)

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

The Company had trade creditors at 31 December 2010 of 38.76 days (2009 - 53 27 days).

Research and Development

During 2010 the Company spent £1 9 million on research and development (2009 - £1 8 million).

Charitable donations

During 2010 the Company made charitable donations amounting to £7,119 (2009 - £1,096)

Auditors

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

By order of the Board

S L Smith

S L Smith
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL

16 June 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKF (U.K.) LIMITED

We have audited the financial statements of SKF (U.K.) Limited for the year ended 31 December 2010 set out on pages 6 to 34 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion·

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

B J Stapleton 3 July 2011

B J Stapleton (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Altius House
One North Fourth Street
Milton Keynes
MK9 1NE

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
TURNOVER					
Continuing operations	**2,3**	202,790		176,110	
Discontinued operations	**2,3**	-		5,545	
			202,790		181,655
COST OF SALES			(149,722)		(141,364)
GROSS PROFIT			53,068		40,291
OPERATING EXPENSES	**3**		(16,501)		(17,578)
OPERATING PROFIT/(LOSS)	**3**				
Continuing operations		36,724		26,012	
Discontinued operations		(157)		(3,299)	
			36,567		22,713
(LOSS)/PROFIT ON SALE OF ASSETS					
Continuing operations			-		(55)
Discontinued operations			(13)		306
			(13)		251
PROFIT ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES			36,554		22,964
INTEREST RECEIVABLE AND SIMILAR INCOME	**4**		368		467
INTEREST PAYABLE AND SIMILAR CHARGES	**4**		(2,106)		(2,032)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**5**		34,816		21,399
TAX ON PROFIT ON ORDINARY ACTIVITIES	**8**		(9,418)		(4,574)
PROFIT FOR THE YEAR			25,398		16,825

Notes on pages 9 - 34 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £000	2009 £000
Profit for the financial year	25,398	16,825
Actuarial gains/(losses) recognised in the pension schemes:		
Main plan	2,989	(28,217)
Executives plan	105	(1,611)
Deferred tax (asset)/liability arising on losses and gains in the pension schemes:		
Main plan	(807)	7,901
Executives plan	(28)	451
Total recognised gains and losses since last annual report	27,657	(4,651)

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £000	2009 £000
Reported profit on ordinary activities before taxation	34,816	21,399
Difference between a historical cost depreciation charge and the actual depreciation charge for the year	94	291
Historical cost profit on ordinary activities before taxation	34,910	21,690
Historical cost profit for the year after taxation	25,492	17,116

SKF (U.K.) LIMITED
Registration Number 107367

BALANCE SHEET AS AT 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
FIXED ASSETS			
Intangible assets	**10**	157	184
Tangible assets	**11**	17,399	17,478
Investments	**12**	2,381	831
		19,937	18,493
CURRENT ASSETS			
Stocks	**13**	11,536	13,971
Debtors	**14**	82,990	90,691
Cash at bank and in hand		2,148	2,664
		96,674	107,326
CREDITORS - Amounts falling due within one year	**15**	(32,304)	(31,528)
NET CURRENT ASSETS		64,370	75,798
TOTAL ASSETS LESS CURRENT LIABILITIES		84,307	94,291
PROVISIONS FOR LIABILITIES AND CHARGES	**16**	(686)	(1,011)
NET ASSETS EXCLUDING PENSION LIABILITIES		83,621	93,280
PENSION LIABILITIES	**22**	(21,829)	(22,495)
NET ASSETS		61,792	70,785
CAPITAL AND RESERVES			
Called-up share capital	**17**	37,200	37,200
Share premium account	**18**	1,114	1,114
Revaluation reserve	**18**	1,266	1,360
Profit and loss account	**18**	22,212	31,111
SHAREHOLDERS' FUNDS	**19**	61,792	70,785

The financial statements were approved by the board on 16 June 2011 and signed on its behalf by.

S L Smith

S L Smith
Director

16 June 2011

Notes on pages 9 – 34 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 STATEMENT OF ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards

The Company has taken advantage of the exemption from preparing consolidated financial statements offered by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Aktiebolaget SKF, a Company incorporated in Sweden, which prepares consolidated financial statements which are publicly available Accordingly, these accounts present information about the Company as an individual undertaking and not its group. The Company is also, on this basis, exempt from the requirements of FRS 1 to present a cash flow statement

Going Concern

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 Directors' Report on pages 1 to 4. The company is expected to continue to generate positive cash flow on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries

Intangible assets - patents and trademarks

Patents and trademarks are included at cost and depreciated in equal annual instalments over a period of 20 years which is their estimated useful economic life Provision is made for any impairment.

Tangible fixed assets

Land and buildings are stated at original historical cost or subsequent valuation (see overleaf). Land is not depreciated. Other fixed assets are stated at cost, net of depreciation and any provision for impairment.

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

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

Residual value is calculated at prices prevailing at the date of acquisition or revaluation

The carrying amounts of the Company's tangible fixed assets are reviewed when an indication of such impairment exists. If any such indication exists, the asset's recoverable amount is estimated.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis A cash generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets (continued)

The recoverable amount of other assets is the greater of their net selling price and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Revaluation of properties

The Company has taken advantage of the transitional provisions of FRS 15 and retained the book amounts of certain freehold properties which were revalued prior to implementation of that standard.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Investments

Fixed asset investments are shown at cost less provisions for impairment.

Stocks

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

Turnover

Turnover represents invoiced sales net of VAT, returns and allowances. Revenue is recognised on delivery of goods and services to the customer.

Leasing

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

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currency

Transactions in foreign currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date

All exchange differences are included in the profit and loss account.

Pension costs

Details of the Company's pension schemes and related accounting policies are shown in the notes to the financial statements.

The Company operates two defined benefit fund pension schemes for directors and other employees. The assets of the schemes are held separately from those of the Company. The pension costs are assessed in accordance with the advice of an independent qualified actuary and are charged to the profit and loss account so as to spread the costs over the expected remaining lives of employees Both pension schemes are subject to full actuarial valuation every three years.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on long term gilts of equivalent term and currency to the liability

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

Research and development

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

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

Expenditure in development activities, whereby research findings are applied to a plan or design for the production of a new product, is capitalised if the new product is technically and commercially feasible and the Company has sufficient resources to complete development

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Research and development (continued)

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

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 TURNOVER

The Company operates solely within the ball and roller bearing sector. A geographical analysis of turnover, profits and net assets is not provided as the directors consider that the disclosure of such information would seriously prejudice the interests of the Company.

3 ANALYSIS OF CONTINUING AND DISCONTINUING OPERATIONS

	2010 Continuing £000	2010 Discontinued £000	2010 Total £000	2009 Continuing £000	2009 Discontinued £000	2009 Total £000
Turnover	202,790	-	202,790	176,110	5,545	181,655
Cost of sales	(149,682)	(40)	(149,722)	(134,121)	(7,243)	(141,364)
Gross profit/(loss)	53,108	(40)	53,068	41,989	(1,698)	40,291
Selling costs	(6,685)	-	(6,685)	(7,223)	(844)	(8,067)
Administration costs	(6,202)	(117)	(6,319)	(5,685)	(620)	(6,305)
Distribution costs	(3,497)	-	(3,497)	(3,069)	(137)	(3,206)
Operating profit/(loss)	36,724	(157)	36,567	26,012	(3,299)	22,713

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

4 FINANCE INCOME

	2010 £000	2009 £000
Interest Receivable and Similar Income		
Income from fixed asset investments	203	208
Interest receivable from fellow group companies	116	159
Other interest receivable and similar income	49	100
	368	467

	2010 £000	2009 £000
Interest Payable and Similar Charges		
Bank loans and overdrafts	45	40
Interest payable to fellow group companies	431	377
Financial expense in relation to pensions (see note 22)	1,630	1,615
	2,106	2,032

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging/(crediting) the following

	2010 £000	2009 £000
Depreciation and amounts written off tangible fixed assets	2,079	2,458
Amortisation of intangible fixed assets	27	117
Research and development	1,928	1,763
Hire of plant and machinery	1,309	1,066
Hire of buildings	357	394
Auditors' remuneration for audit services	61	38
Exchange gain	(348)	(751)
Loss/(Profit) on disposal of tangible fixed assets	13	(251)

Amounts payable to KPMG LLP by the Company in respect of non audit services were £2 000 (2009- £Nil).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

6 STAFF COSTS

The average monthly number of employees (including executive directors) was.-

	2010 Number	2009 Number
Production	531	601
Sales	100	80
Distribution	33	60
Administration	181	238
	845	979

Their aggregate remuneration comprised·

	2010 £000	2009 £000
Wages and salaries	30,760	32,179
Social security costs	2,759	2,903
Other pension costs (see note 22)	3,094	3,352
	36,613	38,434

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

7 DIRECTORS' REMUNERATION AND TRANSACTIONS

Remuneration

The remuneration of the directors was as follows:-

	2010 £000	2009 £000
Emoluments	399	614
Company contributions to pension scheme	162	155
	561	769

Pensions

The number of directors who were members of pension schemes was as follows.-

	2010 Number	2009 Number
Defined benefit schemes	2	2

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2010 £000	2009 £000
Emoluments	265	313

The accrued pension benefit at 31 December 2010 of the highest paid director was £117,000 (2009 - £113,000).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2010 £000	2009 £000
UK corporation tax		
Current year	(9,951)	(4,555)
Adjustment in respect of previous periods	31	(2)
	(9,920)	(4,557)
Deferred tax		
Current year movement	341	306
Deferred tax in relation to pensions	161	(323)
	502	(17)
Current tax charge for the year	(9,418)	(4,574)

Tax Reconciliation	2010 £000	2009 £000
Profit on ordinary activities before tax	34,816	21,399
Tax at 28% thereon	(9,748)	(5,992)
(Income)/Expenses not deductible for tax purposes	(326)	385
Capital allowances in excess of depreciation	82	1,244
Movement in short term timing differences	(329)	(194)
Adjustment in respect of previous periods	31	(2)
Utilisation of loss carried forward	370	-
Other	-	2
	(9,920)	(4,557)

Factors that may affect future current and total tax charges

On 23rd March 2011 the Chancellor announced a reduction in the main rate of corporation tax to 26% with effect from 1 April 2011 This change became substantively enacted on 29 March 2011; however it has not been reflected in the figures above as it was not substantively enacted as at the balance sheet date. The Chancellor also proposed changes to further reduce the main rate of corporation tax by one percent per annum to 23% by 1 April 2014, but, as these changes have not been substantively enacted, they have not been included in the above figures.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

9 DIVIDENDS

	2010 £000	2009 £000
Interim dividend paid of 98.5p per ordinary share	36,650	-

Subsequent to the year end the directors have approved an interim ordinary dividend for the year ended 31 December 2011 of £22.0 million.

In accordance with FRS 21 "Events after balance sheet date", the dividends proposed but not declared at balance sheet date have not been recognised as a liability at that balance sheet date.

10 INTANGIBLE ASSETS

	Development Cost £000	Intellectual Property £000	Total £000
Cost or valuation			
At 1 January 2010	234	300	534
At 31 December 2010	234	300	534
Amortisation			
At 1 January 2010	178	172	350
Charge for the year	12	15	27
At 31 December 2010	190	187	377
Net book value			
At 31 December 2010	44	113	157
At 31 December 2009	56	128	184

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

11 TANGIBLE ASSETS

	Freehold Land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 January 2010	16,234	51,767	387	68,388
Additions	421	655	670	1,746
Acquisitions	2	297	-	299
Transfers	-	497	(497)	-
Disposals	(41)	(425)	-	(466)
At 31 December 2010	16,616	52,791	560	69,967
Depreciation				
At 1 January 2010	7,732	43,178	-	50,910
Charge for the year	459	1,620	-	2,079
Disposals	(31)	(390)	-	(421)
At 31 December 2010	8,160	44,408	-	52,568
Net book value				
At 31 December 2010	8,456	8,383	560	17,399
At 31 December 2009	8,502	8,589	387	17,478

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

	2010 £000	2009 £000
Cost	13,863	13,418
Aggregate depreciation	(5,725)	(5,366)
Net book value	8,138	8,052

Freehold land amounting to £2,636,000 (2009 - £2,636,000) has not been depreciated.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

12 INVESTMENTS

	Shares in group undertakings £000	Other investments (Unlisted) £000	Total £000
Cost			
At 1 January 2010	-	831	831
Additions	1,873	-	1,873
At end of year	1,873	831	2,704
Provision of impairment			
At 1 January 2010	-	-	-
Provided in the year	323	-	323
At 31 December 2010	323	-	323
Net book value			
At 31 December 2010	1,550	831	2,381
At 31 December 2009	-	831	831

On 1 October 2010, the company acquired 100% shareholding in SKF Economos UK Limited for a total consideration of £1,873,000 from a group company. The trade and assets of SKF Economos UK Limited was subsequently transferred to the company on 1 October 2010 (see note 23).

The impairment provision has been created following an impairment review performed by the directors

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

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
SKF Economos UK Limited	Great Britain	Manufacture and Distribution of hydraulic and pneumatic seals seals and components	Ordinary share 100%
Other Investments			
SKF India Limited	India	Bearing Manufacture	Ordinary share 6.45%

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

13 STOCKS

	2010 £000	2009 £000
Raw materials and consumables	1,605	1,951
Work in progress	7,395	8,395
Finished goods	2,536	3,625
	11,536	13,971

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

14 DEBTORS

	2010 £000	2009 £000
Amounts falling due within one year:		
Trade debtors	19,963	21,739
Amounts owed by group undertakings	58,800	66,549
Other debtors	1,120	27
Prepayments and accrued income	3,107	2,376
	82,990	90,691

15 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £000	2009 £000
Trade creditors	5,398	4,704
Amounts owed to group undertakings	10,781	10,874
Other taxation and social security	1,036	984
Other creditors	2,468	4,170
Accruals and deferred income	8,525	7,758
UK corporation tax payable	4,096	3,038
	32,304	31,528

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

16 DEFERRED TAXATION

	2010 £000	2009 £000
At 1 January	1,011	1,370
Debited to the profit and loss account	(341)	(306)
Other changes	16	(53)
At 31 December	686	1,011

The elements of deferred taxation are as follows·

	2010 £000	2009 £000
Fixed asset timing differences	1,092	1,178
Other timing differences	(406)	(167)
Total deferred tax liability	686	1,011

A deferred tax asset relating to tax losses transferred on acquisition of Stonewind Limited of £4,335,000 (2009 - £5,280,000) has not been recognised as the directors consider its recoverability doubtful in the short term.

17 CALLED-UP SHARE CAPITAL

	2010 £000	2009 £000
Authorised, allotted, called-up and fully paid		
37,200,000 ordinary shares of £1 each	37,200	37,200

18 RESERVES

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At 1 January 2010	1,114	1,360	31,111	33,585
Profit for the year	-	-	25,398	25,398
Dividend in respect of current year	-	-	(36,650)	(36,650)
Transfer of reserves	-	(94)	94	-
Actuarial gains recognised in the pension schemes net of deferred tax	-	-	2,259	2,259
At 31 December 2010	1,114	1,266	22,212	24,592

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

19 SHAREHOLDERS' FUNDS

	2010 £000	2009 £000
Profit for the financial year	25,398	16,825
Dividends in respect of current year	(36,650)	-
Actuarial gains/(losses) recognised in the pension schemes net of deferred tax	2,259	(21,476)
Net reduction to shareholders' funds	(8,993)	(4,651)
Opening shareholders' funds	70,785	75,436
Closing shareholders' funds	61,792	70,785

20 LEASE OBLIGATIONS

At 31 December 2010 the Company had annual commitments under operating leases as follows

	2010 Land and buildings £000	2010 Other £000	2009 Land and buildings £000	2009 Other £000
Expiry date.				
Within 1 year	39	238	34	164
Between two and five years	45	593	24	748
After 5 years	217	117	262	28
	301	948	320	940

21 CAPITAL COMMITMENTS

At 31 December 2010 capital expenditure contracts totalling £172,000 (2009 - £445,000) have been entered into but not provided for.

At 31 December 2010 the following Euro forward exchange contracts have been entered into·

Maturity Date	€	£
31 January 2011	519,000	438,816
28 February 2011	340,000	287,470
31 March 2011	487,000	411,759
28 April 2011	400,000	348,120
31 May 2011	400,000	348,080
30 June 2011	400,000	348,040

The Company has no contingent liabilities in respect of guaranteed loans of fellow SKF subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES

Pension Costs

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

The information disclosed below is in respect of the whole of the 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 periods shown.

Main Plan

Reconciliation of fund status to balance sheet

	Main plan 31 December 2010 £000	Main plan 31 December 2009 £000	Main Plan 31 December 2008 £000
Present value of funded defined benefit obligations	(139,529)	(129,288)	(94,374)
Fair value of plan assets	113,701	102,352	94,677
(Deficit)/surplus	(25,828)	(26,936)	303
Related deferred tax asset/(liability)	6,974	7,542	(85)
Net (liability)/asset	(18,854)	(19,394)	218

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Main Plan (continued)

	Main Plan 31 Dec 2010 £000	Main Plan 31 Dec 2009 £000	Main Plan 31 Dec 2008 £000	SNFA Plan 31 Dec 2008 £000	Total 31 Dec 2008 £000
Changes in the present value of liabilities during the year					
Liabilities at the start of the year	(129,288)	(94,374)	(102,079)	-	**(102,079)**
Acquisition of SNFA business	-	-	-	(7,594)	**(7,594)**
Current service cost	(4,493)	(3,530)	(3,863)	(161)	**(4,024)**
Past service cost	-	(34)	-	-	-
Gains on curtailments	-	184	-	-	-
Interest cost	(7,218)	(6,270)	(6,021)	(329)	**(6,350)**
Actuarial gain/(loss) on liabilities due to experience	1,628	1,233)	4,155	345	**4,500**
Actuarial gain/(loss) on liabilities due to assumptions	(5,459)	(29,070)	15,905	868	**16,773**
Benefits paid	5,301	5,039	4,205	195	**4,400**
Transfer to SKF Main Plan	-	-	(6,676)	6,676	-
Liabilities at the end of the year	(139,529)	(129,288)	(94,374)	-	**(94,374)**
Changes in the fair values of assets during the year					
Fair value of assets at start of the year	102,352	94,677	95,286	-	**95,286**
Acquisition of SNFA business	-	-	-	6,071	**6,071**
Expected return on assets	5,847	4,922	5,794	308	**6,102**
Actuarial gain/(loss) on assets	6,820	2,086	(13,831)	(1,517)	**(15,348)**
Contributions by the Company	2,271	3,652	5,405	251	**5,656**
Contributions by the members	1,712	2,054	1,251	59	**1,310**
Benefits paid	(5,301)	(5,039)	4,205)	(195)	**(4,400)**
Transfer to SKF Main Plan	-	-	4,977	(4,977)	-
Fair value of assets at end of year	113,701	102,352	94,677	-	**94,677**

On 1 October 2008 the SNFA Bearings Limited Retirement Benefit Scheme ceased and the assets and liabilities were transferred to the SKF (U K) Limited Pension Plan

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Main Plan (continued)

Contributions by the Company of £2,271,000 excludes the element of company contributions made in respect of outstanding Section 75 Debt resulting from participating employers becoming divisions of SKF (U.K) Limited.

	Main Plan 31 Dec 2010 £000	Main Plan 31 Dec 2009 £000	Main Plan 31 Dec 2008 £000	SNFA Plan 31 Dec 2008 £000	Total 31 Dec 2008 £000
Analysis of profit and loss charge					
Current service cost	2,781	1,476	2,612	102	**2,714**
Past service cost	-	34	-	-	-
Gains on curtailments	-	(184)	-	-	-
Interest cost	7,218	6,270	6,021	329	**6,350**
Expected return on assets	(5,847)	(4,922)	(5,794)	(308)	**(6,102)**
Expense recognised in profit and loss	4,152	2,674	2,839	123	**2,962**
The expense is recognised in the following line items in the profit and loss account					
Cost of sales	2,781	1,326	2,612	102	**2,714**
Other interest receivable & similar income	-	-	-	-	-
Interest payable & similar charges	1,371	1,348	227	21	**248**
	4,152	2,674	2,839	123	**2,962**

On 1 October 2008 the SNFA bearings Limited Retirement Benefit Scheme ceased and the costs and liabilities were transferred to the SKF (U.K.) Limited Pension Plan.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Main Plan (continued)

Analysis of amounts recognised in the statement of total recognised gains and losses

	Main Plan 31 December 2010 £000	Main Plan 31 December 2009 £000	Main Plan 31 December 2008 £000
Actuarial gain/(loss) on assets	6,820	2,086	(15,348)
Actuarial gain/(loss) on liabilities due to experience	1,628	(1,233)	4,500
Actuarial (loss)/gain on liabilities due to assumptions	(5,459)	(29,070)	16,773
Total gain/(loss) in the STRGL	2,989	(28,217)	5,925

The fair value of the plan assets, the return on those assets and the expected return on assets were as follows

	Main Plan 31 Dec 2010 £000	Main Plan 31 Dec 2010 % pa	Main Plan 31 Dec 2009 £000	Main Plan 31 Dec 2009 % pa	Main Plan 31 Dec 2008 £000	Main Plan 31 Dec 2008 % pa
Equities	42,668	7 70	36,653	8.00	26,694	8 75
Bonds	63,054	5 40	57,217	4.50	58,239	3 80
Property	6,153	6.20	5,709	6 50	4,813	5 80
Cash/other	1,826	0 50	2,773	0 50	4,931	1 50
	113,701		102,352		94,677	
Actual return on assets	12,667		7,008		(9,246)	

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Main Plan (continued)

Principal actuarial assumptions (expressed as weighted averages) at the end of the year were as follows

	Main Plan 31 December 2010	Main Plan 31 December 2009	Main Plan 31 December 2008
Discount rate	5.4%	5 7%	6 7%
Retail price inflation	3 8%	3 8%	3 2%
Consumer price inflation	3 3%	n/a	n/a
Increases to pensionable earnings	4.0%	4 0%	3.5%
Increases to pensions in payment			
- RPI/5%	- / 3 0%	- / 3 0%	- / 3.0%
- RPI/2 5%	3.4%	3 4%	3 2%
- Fixed	2.2%	2 2%	2 4%
Pre-retirement increases for deferred pensions	3 8%	3.8%	3 2%
Commutation allowance	25%	25%	25%

The assumptions relating to longevity underlying pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows

Current pensioner aged 65 20 4 years (male), 22 9 years (female)

The history of the plans for the current and prior periods is as follows

	Main plan 31 Dec 2010 £000	Main plan 31 Dec 2009 £000	Main plan 31 Dec 2008 £000	Main plan 31 Dec 2007 £000	Main plan 31 Dec 2006 £000
Balance sheet					
Present value of scheme liabilities	(139,529)	(129,288)	(94,374)	(102,079)	(99,370)
Fair value of scheme assets	113,701	102,352	94,677	95,286	92,880
	(25,828)	(26,936)	303	(6,793)	(6,490)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Main Plan (continued)

	Main plan 31 Dec 2010	Main plan 31 Dec 2009	Main plan 31 Dec 2008	Main plan 31 Dec 2007	Main plan 31 Dec 2006
Experience adjustments					
Experience adjustments on scheme liabilities as a percentages of scheme liabilities	1 2%	1 0%	4.8%	(0 2%)	2.0%
Experience adjustments on scheme liabilities as a percentage of scheme assets	1 4%	1 2%	4 8%	(0 2%)	2.0%

The Company expects to contribute approximately £2 9m to its defined benefit plans in the next financial year

Executives Plan

	Exec plan 31 December 2010 £000	Exec plan 31 December 2009 £000	Exec Plan 31 December 2008 £000
Reconciliation of fund status to balance sheet			
Present value of funded defined benefit obligations	(14,495)	(13,620)	(10,461)
Fair value of plan assets	10,420	9,313	7,589
Deficit	(4,075)	(4,307)	(2,872)
Related deferred tax asset	1,100	1,206	804
Net liability	(2,975)	(3,101)	(2,068)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Executives Plan (continued)

	Exec plan 31 December 2010 £000	Exec plan 31 December 2009 £000	Exec plan 31 December 2008 £000
Changes in the present value of liabilities during the year			
Liabilities at the start of the year	(13,620)	(10,461)	(9,911)
Current service cost	(314)	(307)	(357)
Past service cost	-	(106)	-
Interest cost	(761)	(709)	(579)
Actuarial gain/(loss) due to experience	528	(136)	(1,934)
Actuarial (loss)/gain due to assumptions	(716)	(2,315)	2,099
Benefits paid	388	414	221
Liabilities at the end of the year	(14,495)	(13,620)	(10,461)
Changes in the fair value of assets during the year			
Fair value of assets at the start of the year	9,313	7,589	8,053
Expected return on assets	502	442	552
Actuarial gain/(loss) on assets	293	840	(1,483)
Contributions by the Company	699	854	686
Contributions by the members	1	2	2
Benefits paid	(388)	(414)	(221)
Fair value of assets at the end of the year	10,420	9,313	7,589
Analysis of the profit and loss charge			
Current service cost	313	305	355
Past service cost	-	106	-
Interest cost	761	709	579
Expected return on assets	(502)	(442)	(552)
Expense recognised in the profit and loss	572	678	382

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Executives Plan (continued)

	Exec plan 31 December 2010 £000	Exec plan 31 December 2009 £000	Exec plan 31 December 2008 £000
The expense is recognised in the following line items in the profit and loss account			
Distribution expenses	66	74	60
Administration expenses	116	148	142
Selling expenses	131	189	153
Interest payable and similar charges	259	267	27
	572	678	382
Analysis of amounts recognised in the statement of total recognised gains and losses			
Actuarial gain/(loss) on assets	293	840	(1,483)
Actuarial gain/(loss) on liabilities due to experience	528	(136)	(1,934)
Actuarial (loss)/gain on liabilities due to assumptions	(716)	(2,315)	2,099
Total (loss)/gain in the STRGL	105	(1,611)	(1,318)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Executives Plan (continued)

The fair value of the plan assets, the return on those assets and the expected return on assets were as follows

	Exec plan 31 Dec 2010 £000	Exec plan 31 Dec 2010 % pa	Exec plan 31 Dec 2009 £000	Exec plan 31 Dec 2009 % pa	Exec plan 31 Dec 2008 £000	Exec plan 31 Dec 2008 % pa
Equities	4,919	7 70	3,389	8 00	3,074	8 75
Bonds	5,243	5 40	4,812	4 50	3,730	3 80
Cash/other	258	0 50	1,112	0.50	785	1 50
	10,420		9,313		7,589	
Actual return on assets	(795)		(1,282)		(931)	

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio

Principal actuarial assumptions (expressed as weighted averages) at the end of the year were as follows:

	Exec plan 31 December 2010	Exec plan 31 December 2009	Exec Plan 31 December 2008
Discount rate	5 4%	5 7%	6 7%
Price inflation	3 8%	3 8%	3 2%
Consumer price inflation	3 3%	n/a	n/a
Increases to pensionable earnings	6.0%	5 1%	5.0%
Increases to pensions in payment.			
- RPI/5%	3 4%	2 5%	2 5%
- RPI/2 5%	2.2%	3 4%	3 2%
- Fixed	3 0%	2 2%	2 4%
Pre-retirement increases for deferred pensions	3 8%	3 8%	3 2%
Commutation allowance	25%	25%	25%

The assumptions relating to longevity underlying pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows·

Current pensioner aged 65: 22.6 years (male), 24.1 years (female)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

22 PENSION LIABILITIES (CONTINUED)

Executives Plan (continued)

The history of the plan for the current and prior periods is as follows:

	Exec plan 31 Dec 2010 £000	Exec plan 31 Dec 2009 £000	Exec plan 31 Dec 2008 £000	Exec plan 31 Dec 2007 £000	Exec plan 31 Dec 2006 £000
Balance sheet					
Present value of scheme liabilities	(14,495)	(13,620)	(10,461)	(9,911)	(8,898)
Fair value of scheme assets	10,420	9,313	7,589	8,053	7,321
	(4,075)	(4,307)	(2,872)	(1,858)	(1,577)
Experience adjustments					
Experience adjustments on scheme Liabilities as a percentages of scheme liabilities	3 7%	1 0%	18 5%	(0 8%)	(0 2%)
Experience adjustments on scheme Liabilities as a percentage of scheme assets	5 2%	1 5%	(25 5%)	1.0%	-

The Company expects to contribute approximately £0 5m to the Executives plan in the next financial year

The FRS 17 liabilities have been based on the preliminary results of the triennial actuarial valuation of the Executives Plan as at 1 June 2010 and the triennial actuarial valuation of the Main Plan as at 6 April 2008 The data for both Plans has been adjusted to reflect most membership movements up to 31 December 2010

The Company also operates a special pension scheme, which caters for pensions augmented or wholly provided by the Company The estimated unfunded liability in respect of past service amounts to £11,000 (2009 - £66,000) which is being funded over a period not exceeding 20 years

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

23 Acquisitions

In the prior period, on 1 January 2009, the Company acquired the trade and assets of SKF Condition Monitoring Centre (Livingston) Limited, a fellow subsidiary undertaking, for the consideration of £1,792,000

The consideration was the net book value of the net assets at the date of transfer The directors considered that the fair values and the book values of the net assets transferred were the same at the transfer date and, therefore, there were no fair value adjustments arising A table of net book values and fair values of the assets and liabilities is presented below

	Total £000
Fixed assets	195
Stocks	630
Debtors (Including deferred tax asset of £53,000)	1,284
Cash	902
Creditors	(1,219)
	1,792
Consideration	(1,792)
Goodwill arising on transfer	-

On 1 October 2010, the Company acquired the trade and assets of SKF Economos UK Limited, a fellow subsidiary undertaking, for the consideration of £1,085,000.

The consideration was the net book value of the net assets at the date of transfer. The directors consider that the fair values and the book values of the net assets transferred were the same at the transfer date and, therefore, there are no fair value adjustments arising. A table of net book values and fair values of the assets and liabilities is presented below.

	Total £000
Fixed assets (see note 11)	299
Stocks	342
Debtors	1,245
Cash	1
Creditors	(802)
	1,085
Consideration	(1,085)
Goodwill arising on transfer	-

24 ULTIMATE PARENT COMPANY AND RELATED PARTY DISCLOSURES

The Company's ultimate parent Company and controlling party is Aktiebolaget SKF, which is incorporated in Sweden. The Company's immediate parent Company at 31st December 2010 was Trelanoak Limited

The parent of the only group for which group financial statements are prepared and of which the Company is a member is Aktiebolaget SKF Copies of these group financial statements can be obtained from SKF (U.K.) Limited, Sundon Park Road, Luton, Bedfordshire, LU3 3BL.

As a subsidiary of Aktiebolaget SKF, the company has taken the exemption contained in FRS8 and has therefore not disclosed the transactions or balances with entities which form part of the group