

SKF (U.K.) Limited

Annual report and financial statements

Registered number 00107367

31 December 2015

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**CONTENTS**

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**Principal activities**

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's turnover was flat throughout the year running approximately 9% lower than 2014, a solid profit was delivered but this was 32% lower than the previous year due mainly to restructuring costs and the reducing phase out licence fee received from Aktiebolaget SKF, who acquired the right to existing technology from the Company as part of the transfer pricing system implemented by the SKF Group. Despite the disappointing result for 2015, the Company remains in a strong financial position.

Faced with challenging market conditions, the Company focussed significant efforts on strengthening the balance sheet and adjusting our organisational structure and ways of working during the year. The changes have made the Company leaner and more focused on supporting the core business.

Looking forward, we expect macro-economic uncertainty to continue and as a result we expect demand to remain relatively unchanged.

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.

Total Value Added (TVA) KPI	£000
2015	19,269
2014	26,265

Risks and uncertainties in the business

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

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

Health, Safety and Environment

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**Results for the year**

Total sales for the year amounted to £217.3 million (2014 - £238.6 million).

The profit for the financial year after taxation was £23.4 million (2014 - £31.7 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:



S L Smith
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL
United Kingdom

29 September 2016

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M R Crean (Appointed 25 September 2015)
R J Law
S L Smith
P J Owen
R Makhija (Resigned 5 March 2015)

Directors' Indemnities

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

Dividends

An interim dividend in respect of the year ended 31 December 2015 of £nil (2014:£ 33.0 million) was paid during the year. The directors do not recommend payment of a final dividend (2014 - £Nil).

Future Developments

An indication of likely future developments in the business and where applicable particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 2 to 3.

Financial instruments

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

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (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 2015 the Company spent £6.5 million on research and development (2014 - £7.4 million).

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

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Employees

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

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

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

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

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**Going Concern**

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

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

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

Independent Auditor

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

Disclosure of information to auditor

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

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



S L Smith
Director

Sundon Park Road
Luton
Bedfordshire
LU3 3BL
United Kingdom

29 September 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, 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 the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standards 101 *Reduced Disclosure Framework* (FRS101).

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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- The Balance Sheet as at 31 December 2015;
- the Profit and Loss Account and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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

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

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

29 September 2016

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Turnover	2	217,270	238,560
Cost of sales		<u>(173,467)</u>	<u>(182,176)</u>
Gross profit		43,803	56,384
Distribution costs		(2,590)	(3,300)
Administrative expenses		<u>(13,047)</u>	<u>(12,847)</u>
Operating profit		28,166	40,237
Income from other fixed asset investments		86	506
Other interest receivable and similar income	7	46	46
Interest payable and similar charges	8	<u>(2,260)</u>	<u>(1,937)</u>
Profit on ordinary activities before taxation		26,038	38,852
Tax on profit on ordinary activities	9	(2,629)	(7,112)
Profit for the financial year		<u>23,409</u>	<u>31,740</u>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £000	2014 £000
Profit for the financial year	<u>23,409</u>	<u>31,740</u>
Other comprehensive income/(expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Releases from the revaluation reserve on disposal of tangible assets	117	(1)
Remeasurements on defined benefit pension plan	23,773	(27,197)
Income tax on items that will not be reclassified to profit or loss	<u>(4,754)</u>	<u>4,554</u>
Other comprehensive income/(expense) for the year , net of income tax	<u>19,136</u>	<u>(22,644)</u>
Total comprehensive income for the year	<u>42,545</u>	<u>9,096</u>

BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	10	100	115
Tangible assets	11	15,980	16,232
Investments	12	3,584	3,584
		<u>19,664</u>	<u>19,931</u>
Current assets			
Inventory	13	18,342	18,655
Trade and other receivables - including £8,202,000 (2014: £14,298,000) due after one year	14	125,940	112,559
Cash and cash equivalents		3,411	3,760
		<u>147,693</u>	<u>134,974</u>
Creditors: amounts falling due within one year	15	(41,769)	(42,555)
Net current assets		<u>105,924</u>	<u>92,419</u>
Total assets less current liabilities		<u>125,588</u>	<u>112,350</u>
Provisions for liabilities			
Pension liabilities	17	(32,497)	(61,690)
Other provisions		(170)	(167)
		<u>(32,667)</u>	<u>(61,857)</u>
Net assets		<u>92,921</u>	<u>50,493</u>
Capital and reserves			
Called up share capital	18	37,200	37,200
Share premium account	18	1,114	1,114
Other reserves	18	919	1,036
Profit and loss account	18	53,688	11,143
Total shareholders' funds		<u>92,921</u>	<u>50,493</u>

These financial statements on pages 10 to 41 were approved by the board of directors on 29 September 2016 and were signed on its behalf by:



S L Smith
Director

29 September 2016

Company registered number: 00107367

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Called up Share Capital £000	Share Premium Account £000	Revaluation Reserve £000	Profit and Loss Account £000	Total Shareholders' Funds £000
Balance at 1 January 2014	37,200	1,114	1,035	35,047	74,396
Total comprehensive income for the year					
Profit for the financial year	-	-	-	31,740	31,740
Other comprehensive expense	-	-	1	(22,644)	(22,643)
Total comprehensive income for the year	-	-	1	9,096	9,097
Dividends	-	-	-	(33,000)	(33,000)
Balance at 31 December 2014	37,200	1,114	1,036	11,143	50,493
Balance at 1 January 2015	37,200	1,114	1,036	11,143	50,493
Total comprehensive income for the year					
Profit for the financial year	-	-	-	23,409	23,409
Other comprehensive expense	-	-	(117)	19,136	19,019
Total comprehensive income for the year	-	-	(117)	42,545	42,428
Balance at 31 December 2015	37,200	1,114	919	53,688	92,921

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**1 ACCOUNTING POLICIES**

SKF (U.K.) Limited (the "Company") is a limited company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and the Companies Act 2006. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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

In these financial statements, the company has adopted FRS 101 for the first time.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 24.

IFRS 1 grants certain exemptions from the full requirements of adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations - Business combinations that took place prior to 1 January 2014 have not been restated.
- Investments and tangible fixed assets - At 1 January 2014, the valuation used under previous GAAP has been used as deemed cost.

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

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

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

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)**

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 23.

Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments are classified as fair value through the profit or loss or as available-for-sale. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

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

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

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

Foreign currency

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

Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other creditors

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

Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)****Tangible assets**

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

Certain items of tangible assets that had been revalued to fair value on or prior to 1 January 2014, the date of transition to FRS 101, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

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

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

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

Business combinations

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

Acquisitions prior to 1 January 2014 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Company elected not to restate business combinations that took place prior to 1 January 2014 and for business combinations between entities under common control the asset and liability values were the book values at the date of transfer.

Intangible assets and goodwill*Research and development*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)***Other intangible assets*

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

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

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

Amortisation

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

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

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

Inventory

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

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

Assets carried at amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)**1 ACCOUNTING POLICIES (CONTINUED)***Non-financial assets*

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

Provisions

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

Turnover

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

Expenses*Operating lease payments*

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

Interest receivable and Interest payable

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

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

Exceptional Items

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (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.

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.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets) excluding interest) 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)**Employees Benefits continued**

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 expenses 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 month after the reporting date, then they are discounted to their present value.

2 Turnover

	2015	2014
	£000	£000
Sale of goods	205,311	226,305
Rendering of services	11,959	12,255
Total turnover	<u>217,270</u>	<u>238,560</u>

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

3 Operating Profit

This is stated after charging/(crediting):

	2015	2014
	£000	£000
Depreciation and amounts written off tangible assets	1,676	1,808
Amortisation of intangible assets	15	36
Research and development costs	6,543	7,380
Operating Lease - Minimum lease payments	1,701	1,845
Auditors remuneration for audit fees of these financial statements	45	41
Net foreign currency exchange differences	150	275
(Profit)/Loss on disposal of tangible asset	<u>(406)</u>	<u>10</u>

Amounts payable to PricewaterhouseCoopers LLP by the Company in respect of audit related assurance services were £12,000 (2014 - £Nil)

4 Exceptional items

	2015	2014
	£000	£000
Recognised in arriving at operating profit from continuing operations:		
Restructuring costs	2,915	78
Gain on disposal of property, plant and equipment	406	-
	<u>3,321</u>	<u>78</u>

Restructuring costs

During the year the Company incurred costs of £2,915,000 (2014: £78,000) in respect of restructuring costs. The restructuring programme took place as part of SKF Group's overall efforts to increase productivity and focus, following the merger of two industrial businesses - Strategic Industries and Regional Sales and Service to form a more simplified, efficient and more customer-focused industrial market structure. The restructuring programme combined with a rationalisation of corporate staff functions to increase white collar productivity, affected 44 employees.

Gain on disposal of property, plant and equipment

Gains and losses on property, plant and equipment are classified as exceptional on the basis that they arise from transactions to dispose of assets other than at the end of their usual expected lives or at values significantly different to their previously assessed residual. As such, the amounts earned or charged in any given year is not indicative of a trend in financial performance. During the year the Company disposed of surplus land which gave rise to a gain of £406,000 (2014: £nil).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

5 Staff numbers and costs

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

	Number of employees	
	2015	2014
Production	580	624
Sales and distribution	126	132
Administration	248	244
	<u>954</u>	<u>1,000</u>

The aggregate payroll costs of these persons were as follows:

	2015 £000	2014 £000
Wages and salaries	38,838	39,037
Social security costs	3,685	3,524
Other pension costs	5,636	5,858
	<u>48,159</u>	<u>48,419</u>

6 Directors' remuneration

	2015 £000	2014 £000
Directors' remuneration	927	648
Amounts receivable under long term incentive schemes	-	24
Company contributions to defined contribution pension plan	2	2
Company contributions to defined benefit pension plans	<u>95</u>	<u>84</u>

The emoluments and amounts receivable of the highest paid director was £465,243 (2014:£426,189). There were no payments made under long term incentive schemes during the year (2014:£7,177). No company pension contributions were made on his behalf (2014:£nil), and the accrued pension benefit at the end of the year was £nil (2014:£nil). No shares were receivable under a long term incentive scheme (2014:£7,231).

	Number of directors	
	2015	2014
Retirement benefits are accruing to the following number of directors under:		
Defined contribution pension plan	1	1
Defined benefit pension plans	2	2
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	-	2

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

7 Other interest receivable and similar income

	2015 £000	2014 £000
Net foreign exchange gain	37	12
Other interest and receivable income	9	34
Total interest receivable and similar income	<u>46</u>	<u>46</u>

8 Interest payable and similar charges

	2015 £000	2014 £000
Bank Loans and overdrafts	28	29
Net interest cost on post employment benefits	1,998	1,580
Other interest expense	-	47
Interest payable to fellow group companies	234	281
Total other interest payable and similar charges	<u>2,260</u>	<u>1,937</u>

9 Tax on profit on ordinary activities**Recognised in the profit and loss account**

	2015 £000	2014 £000
UK corporation tax		
Current tax on income for the year	(4,079)	(7,270)
Adjustments in respect of prior years	2,796	114
Total current tax	<u>(1,283)</u>	<u>(7,156)</u>
Deferred tax		
Origination and reversal of temporary differences	(1,111)	(842)
Reduction in tax rate	13	948
Adjustments in respect of prior years	(248)	(62)
Total deferred tax	<u>(1,346)</u>	<u>44</u>
Tax on profit on ordinary activities	<u>(2,629)</u>	<u>(7,112)</u>

Income tax recognised in other comprehensive income

	2015 £000	2014 £000
Remeasurements of defined benefit liability	(4,754)	4,554
	<u>(4,754)</u>	<u>4,554</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

9 Tax on profit on ordinary activities continued

Reconciliation of effective tax rate

The tax expense in the income statement for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are reconciled below:

	2015 £000	2014 £000
Profit for the year	23,409	31,740
Total tax expense	<u>2,629</u>	<u>7,112</u>
Profit excluding taxation	26,038	38,852
Tax using the UK corporation tax rate of 20.25% (2014: 21.5%)	(5,272)	(8,353)
Dividends received	17	109
Non-deductible expenses	(178)	(164)
Non-taxable income	17	-
(Under)/over provided in prior years	-	114
Change in corporation tax rate	17	964
Tax credits - Research and Development	222	218
Adjustments in respect of prior years	2,548	-
Total tax expense	<u>(2,629)</u>	<u>(7,112)</u>

UK Corporation tax is calculated at 20% (2014: 21%) of the estimated assessable profit for the year. As a result of the provisions of Finance Act 2014 to reduce the UK corporation tax rate from 21% to 20% from 1 April 2015, the applicable rate of corporation tax for the year is 20%. Finance Act 2015 introduced further changes to the main rate of corporation tax, which was reduced from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020, UK deferred tax balances have therefore been re-measured to reflect the rate at which they are expected to reverse.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

10 Intangible assets

	Development Cost £000	Intellectual Property £000	Total £000
Cost			
Balance at 1 January 2015	409	300	709
Disposals	(206)	-	(206)
Balance at 31 December 2015	<u>203</u>	<u>300</u>	<u>503</u>
Amortisation			
Balance at 1 January 2015	(347)	(247)	(594)
Charge for the year	-	(15)	(15)
Disposals	206	-	206
Balance at 31 December 2015	<u>(141)</u>	<u>(262)</u>	<u>(403)</u>
Net book value			
At 31 December 2015	<u>62</u>	<u>38</u>	<u>100</u>
At 31 December 2014	<u>62</u>	<u>53</u>	<u>115</u>

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

	2015 £000	2014 £000
Cost of sales	15	36
	<u>15</u>	<u>36</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

11 Tangible assets

	Land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost				
Balance at 1 January 2015	17,014	56,251	379	73,644
Additions	64	570	914	1,548
Transfers	154	488	(642)	-
Disposals	(118)	(436)	(4)	(558)
Balance at 31 December 2015	17,114	56,873	647	74,634
Depreciation				
Balance at 1 January 2015	9,176	48,236	-	57,412
Depreciation charge for the year	371	1,305	-	1,676
Disposals	-	(434)	-	(434)
Balance at 31 December 2015	9,547	49,107	-	58,654
Net book value				
At 31 December 2015	7,567	7,766	647	15,980
At 31 December 2014	7,838	8,015	379	16,232

The net book value of freehold land and buildings comprises:

	2015 £000	2014 £000
Freehold - Cost	14,613	14,526
Freehold - Accumulated depreciation	(7,185)	(6,837)
	7,428	7,689

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

12 Investments

	Shares in group undertakings £000	Other investments (Unlisted) £000	Total £000
Cost			
At 1 January 2015	2,753	831	3,584
At 31 December 2015	<u>2,753</u>	<u>831</u>	<u>3,584</u>
Provision of impairment			
At 1 January 2015	-	-	-
At 31 December 2015	<u>-</u>	<u>-</u>	<u>-</u>
Net book value			
At 31 December 2015	<u>2,753</u>	<u>831</u>	<u>3,584</u>
At 31 December 2014	<u>2,753</u>	<u>831</u>	<u>3,584</u>

The Directors believe that the carrying value of the investments in subsidiary undertakings is supported by their underlying net assets.

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			
Slowind Limited	Great Britain	Dormant	Ordinary shares 100%
Burywind Limited	Great Britain	Dormant	Ordinary shares 100%
Other investments			
SKF India Limited	India	Bearing manufacturer	Ordinary shares 6.45%

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

13 Inventory

	2015 £000	2014 £000
Raw materials and consumables	7,579	7,766
Work in progress	5,797	5,747
Finished goods	4,966	5,142
	<u>18,342</u>	<u>18,655</u>

Stock values are stated net of a provision for net realisable value of £5,192,000 (2014:£5,532,000). The amount charged to expense for net realisable provisions during the year was £nil (2014:£1,366). Reversals of net realisable provisions during the year were £340,000 (2014:£nil)

14 Trade and other receivables

	2015 £000	2014 £000
Trade receivables	31,266	29,276
Amounts owed by group undertakings	82,846	66,193
Other receivables	1,933	700
Deferred tax assets (see note 16)	8,206	14,306
Prepayments and accrued income	1,689	2,084
	<u>125,940</u>	<u>112,559</u>

Deferred tax assets include £8,202,000 (2014: £14,298,000) falling due after more than one year.

15 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Trade creditors	7,522	9,105
Amounts owed to group undertakings	17,580	14,917
UK Corporation tax payable	766	4,603
Taxation and social security	791	807
Other creditors	3,226	3,005
Accruals and deferred income	11,884	10,118
	<u>41,769</u>	<u>42,555</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

16 Deferred tax assets and liabilities

	2015 £000	2014 £000
Deferred tax liability		
Accelerated capital allowances	(726)	(717)
Deferred tax asset		
Post employment benefits	6,499	12,338
Credit note reserve	4	8
Tax losses carried forward	2,429	2,677
	<u>8,932</u>	<u>15,023</u>
Disclosed on the balance sheet:		
Deferred tax asset	<u>8,206</u>	<u>14,306</u>
Deferred tax in the income statement		
General credit note reserve	(4)	1
Plant and Property	(9)	23
Pension - IAS19	(5,839)	4,632
Adjustments in respect of prior year	(248)	(58)
Deferred tax movement on actuarial gains & losses booked in equity	4,754	(4,554)
Deferred tax booked in profit and loss account	<u>(1,346)</u>	<u>44</u>

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Property, plant and machinery	-	-	(726)	(717)	(726)	(717)
Provisions for post employment benefits	6,499	12,338	-	-	6,499	12,338
Tax loss carry forwards	2,429	2,677	-	-	2,429	2,677
Trade receivables	4	8	-	-	4	8
Tax assets/(liabilities)	<u>8,932</u>	<u>15,023</u>	<u>(726)</u>	<u>(717)</u>	<u>8,206</u>	<u>14,306</u>

Movement in deferred tax - current year

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

16 Deferred tax assets and liabilities (continued)

Movement in deferred tax - comparative year

	1 Jan 2014 £000	Recognised in income £000	Recognised in equity £000	31 Dec 2014 £000
Property, plant and machinery	(740)	23	-	(717)
Post employment benefits	7,706	78	4,554	12,338
Tax loss carry forwards	2,735	(58)	-	2,677
Credit note reserve	7	1	-	8
Reduction in tax rate	-	-	-	-
	<u>9,708</u>	<u>44</u>	<u>4,554</u>	<u>14,306</u>

17 Employee benefits

Pension Costs

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

Benefits provided under the defined contribution scheme are determined by reference to the contributions paid, which are immediately charged to the profit and loss account during the year. The cost of the contributions to the defined contribution scheme amounts to £1,211,000 (2014: £1,040,000). Outstanding contributions at the end of the year were £97,000 (2014: £74,000).

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)
17 Employee benefits (continued)
Defined Benefit Scheme - Main Plan
Actuarial assumptions

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

	2015	2014
	%	%
Discount rate	3.8	3.4
Retail price inflation	3.4	3.3
Consumer price inflation	2.4	2.3
Increases to pensionable earnings	2.8	3.3
Increases to pensions in payment:		
- RPI/5%	3.2	3.1
- RPI/2.5%	2.1	2.1
Increases to pension in deferment	3.4	3.3

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:

	2015	2014
	Years	Years
Longevity at age 65 for current pensioners		
- Men	21.4	21.6
- Women	23.3	23.7
Longevity at age 65 for future pensioners		
- Men	21.9	22.1
- Women	24.0	24.5

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

17 Employee benefits (continued)

Defined Benefit Scheme - Main Plan continued

Reconciliation of scheme assets and liabilities:

	2015 Assets £000	2015 Liabilities £000	2015 Total £000	2014 Assets £000	2014 Liabilities £000	2014 Total £000
At 1 January	172,609	(228,829)	(56,220)	151,304	(185,653)	(34,349)
Benefits paid	(6,288)	6,288	-	(5,982)	5,982	-
Contributions by participants	87	(87)	-	100	(100)	-
Contributions by the employer	11,086	-	11,086	9,650	-	9,650
Current service cost	-	(4,239)	(4,239)	-	(4,664)	(4,664)
Interest income/(expense)	5,926	(7,749)	(1,823)	6,726	(8,135)	(1,409)
Remeasurement gains/(losses)	(4,233)	26,516	22,283	10,794	(36,259)	(25,465)
	<u>179,187</u>	<u>(208,100)</u>	<u>(28,913)</u>	<u>172,592</u>	<u>(228,829)</u>	<u>(56,237)</u>

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

2015				2014			
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	39,500	(50,000)	1.0	42,900	(54,200)	
Salary growth	0.5	(12,000)	11,000	0.5	(10,800)	9,800	
Pension increase	0.5	(5,200)	6,300	0.5	(6,500)	6,900	
Life expectancy	Increase or decrease by 1 year	(5,300)	5,300	Increase or decrease by 1 year	(7,000)	6,900	

Total cost recognised as an expense:

	2015 £000	2014 £000
Current service cost	4,239	4,664
Interest cost	1,823	1,409
	<u>6,062</u>	<u>6,073</u>

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

17 Employee benefits (continued)

Defined Benefit Scheme - Main Plan continued

The fair value of the plan assets:

	2015 £000	2014 £000
Cash	1,896	1,817
Government bonds	45,232	45,266
Corporate bonds	60,552	57,579
Equity instruments	62,042	60,062
Property	9,431	7,885
	<u>179,153</u>	<u>172,609</u>

Return on plan assets:

	2015 £000	2014 £000
Interest income	5,926	6,726
Remeasurements	(4,233)	10,794
	<u>1,693</u>	<u>17,520</u>

The company expects to contribute approximately £11.0m to the Main plan in the next financial year

Defined Benefit Scheme - Executive Plan

Actuarial assumptions

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

	2015 %	2014 %
Discount rate	3.8	3.4
Retail price inflation	3.4	3.3
Consumer price inflation	2.4	2.3
Increases to pensionable earnings	2.8	3.3
Increases to pensions in payment:		
- RPI/5%	3.2	3.1
- RPI/2.5%	2.1	2.1
Increases to pension in deferment	3.4	3.3

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:

	2015 Years	2014 Years
Longevity at age 65 for current pensioners		
- Men	29.3	29.2
- Women	30.6	30.5
Longevity at age 65 for future pensioners		
- Men	31.6	31.4
- Women	33.0	32.8

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

17 Employee benefits (continued)

Defined Benefit Scheme - Executive Plan continued

Reconciliation of scheme assets and liabilities:

	2015 Assets £000	2015 Liabilities £000	2015 Total £000	2014 Assets £000	2014 Liabilities £000	2014 Total £000
At 1 January	14,688	(20,158)	(5,470)	13,444	(17,626)	(4,182)
Benefits paid	(699)	699	-	(1,118)	1,118	-
Contributions by the employer	791	-	791	769	-	769
Current service cost	-	(186)	(186)	-	(154)	(154)
Interest income/(expense)	504	(679)	(175)	595	(766)	(171)
Remeasurement gains/(losses)	(353)	1,843	1,490	998	(2,730)	(1,732)
	14,931	(18,481)	(3,550)	14,688	(20,158)	(5,470)

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

	2015 Impact on defined benefit obligation			2014 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	39,500	(50,000)	1.0	42,900	(54,200)
Salary growth	0.5	(12,000)	11,000	0.5	(10,800)	9,800
Pension increase	0.5	(5,200)	6,300	0.5	(6,500)	6,900
Life expectancy	Increase or decrease by 1 year	(5,300)	5,300	Increase or decrease by 1 year	(7,000)	6,900

Total cost recognised as an expense:

	2015 £000	2014 £000
Current service cost	186	154
Interest cost	175	171
	361	325

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)
17 Employee benefits (continued)
Defined Benefit Scheme - Executive Plan continued
The fair value of the plan assets:

	2015	2014
	£000	£000
Cash	65	87
Government bonds	3,915	3,879
Corporate bonds	3,760	3,688
Equity instruments	7,191	7,034
	<u>14,931</u>	<u>14,688</u>

Return on plan assets:

	2015	2014
	£000	£000
Interest income	504	595
Remeasurements	(353)	998
	<u>151</u>	<u>1,593</u>

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

For the Main Plan the IAS19 liabilities have been based on the draft results of the triennial actuarial valuation of the Plan as at 6 April 2014. For the Executive Plan, the value of the IAS19 liabilities have been based on the results of the triennial actuarial valuation of the Plan as at 1 June 2013. 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:

	2015	2014
	£000	£000
Current year contributions	1,211	1,040
	<u>1,211</u>	<u>1,040</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

18 Capital and reserves

Share capital

	2015 £000	2014 £000
Allotted, called up and fully paid		
37,200,000 (2014: 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

The following interim dividends were recognised during the year:

	2015 £000	2014 £000
£nil (2014: 88.7p) per qualifying ordinary share	-	(33,000)
	-	(33,000)

After the balance sheet date dividends of £nil per qualifying ordinary share (2014: 88.7p) were proposed by the directors. The dividends have not been provided for.

Other comprehensive income - Current year

	Share premium £000	Revaluation reserve £000	Profit and loss account £000	Total Other comprehensive income/ (expense) £000
Other comprehensive income				
Revaluation of tangible assets (net of tax)	-	117	-	117
Remeasurements on defined benefit pension plan (net of tax)	-	-	23,773	23,773
Income tax on items that will not be reclassified subsequently to profit or loss	-	-	(4,754)	(4,754)
Total other comprehensive income	-	117	19,019	19,136

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

18 Capital and reserves (continued)

Other comprehensive expense - Comparative

	Share Premium £000	Revaluation reserve £000	Profit and loss account £000	Total other comprehensive income/ (expense) £000
Other comprehensive expense				
Revaluation of tangible assets (net of tax)	-	(1)	-	(1)
Remeasurements on defined benefit pension plan (net of tax)	-	-	(27,197)	(27,197)
Income tax on items that will not be reclassified subsequently to profit or loss	-	-	4,554	4,554
Total other comprehensive expense	-	(1)	(22,643)	(22,644)

19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2015 £000	2014 £000
Less than one year	1,353	1,738
Between one and five years	1,601	2,805
More than five years	64	214
	<u>3,018</u>	<u>4,757</u>

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

During the year, £1,701,000 was recognised as an expense in the profit and loss account in respect of operating leases (2014: £1,845,000).

20 Commitments

Capital commitments

During the year ended 31 December 2015, the Company entered into a contracts to purchase property, plant and equipment for £865,000 (2014: £1,095,000).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

21 Related parties

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

	Purchases and other expenses		Amounts owed to	
	2015 £000	2014 £000	2015 £000	2014 £000
Other related parties	7,634	7,438	406	402
	<u>7,634</u>	<u>7,438</u>	<u>406</u>	<u>402</u>

	Other related parties	
	2015 £000	2014 £000
Purchases and other expenses		
Main Plan Current Service + Interest Cost (Note 17)	6,062	6,073
Exec Plan Current Service + Interest Cost (Note 17)	361	325
GFRP Contributions (Note 17)	1,211	1,040
	<u>7,634</u>	<u>7,438</u>

Amount owed to

Main & Exec Plan	309	328
GFRP Contributions (Note 17)	97	74
	<u>406</u>	<u>402</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.

22 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 2015 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)**23 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.

Taxation

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

Pension and other post employment benefits

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

24 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

24 Explanation of transition to FRS 101 (continued)

Reconciliation of equity

		1 January 2014 Effect of transition to FRS			31 December 2014 Effect of transition to FRS		
	Note	UK GAAP £000	101 £000	FRS 101 £000	UK GAAP £000	101 £000	FRS 101 £000
Fixed assets							
Intangible assets		151	-	151	115	-	115
Tangible assets		17,702	-	17,702	16,232	-	16,232
Investments		3,584	-	3,584	3,584	-	3,584
		21,437	-	21,437	19,931	-	19,931
Current assets							
Stocks		18,936	-	18,936	18,655	-	18,655
Trade debtors		31,784	-	31,784	29,280	(4)	29,276
Amounts owed by group undertakings		67,257	-	67,257	66,193	-	66,193
Other debtors		593	-	593	696	4	700
Deferred tax asset	a	2,002	7,706	9,708	1,968	12,338	14,306
Prepayments and accrued income		2,143	-	2,143	2,084	-	2,084
Cash at bank and in hand		4,979	-	4,979	3,760	-	3,760
		127,694	7,706	135,400	122,636	12,338	134,974
Creditors: amounts due within one year							
Trade creditors		(6,159)	-	(6,159)	(9,105)	-	(9,105)
Amounts owed to group undertakings		(18,297)	-	(18,297)	(14,917)	-	(14,917)
Taxation and social security		(768)	-	(768)	(807)	-	(807)
Other creditors		(4,222)	-	(4,222)	(3,005)	-	(3,005)
Accruals and deferred income	b	(9,641)	131	(9,510)	(10,285)	167	(10,118)
Corporation Tax		(4,823)	-	(4,823)	(4,603)	-	(4,603)
		(43,910)	131	(43,779)	(42,722)	167	(42,555)
Net current assets		83,784	7,837	91,621	79,914	12,505	92,419
Total assets less current liabilities		105,221	7,837	113,058	99,845	12,505	112,350

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

24 Explanation of transition to FRS 101 (continued)

Reconciliation of equity

Note	1 January 2014			31 December 2014		
	UK GAAP	Effect of transition to FRS 101	FRS 101	Adopted IFRS	Effect of transition to FRS 101	FRS 101
	£000	£000	£000	£000	£000	£000
Provisions for liabilities						
Other provisions	b -	(131)	(131)	-	(167)	(167)
Pension liability	a (30,825)	(7,706)	(38,531)	(49,352)	(12,338)	(61,690)
	(30,825)	(7,837)	(38,662)	(49,352)	(12,505)	(61,857)
Net assets	74,396	-	74,396	50,493	-	50,493
Capital and reserves						
Called up share capital	37,200	-	37,200	37,200	-	37,200
Share premium account	1,114	-	1,114	1,114	-	1,114
Revaluation reserve	1,035	-	1,035	1,036	-	1,036
Profit and loss account	35,047	-	35,047	11,143	-	11,143
Total shareholders' funds	74,396	-	74,396	50,493	-	50,493

Notes to the reconciliation of equity

a - Defined benefit pension plans

Defined benefit pension plans were formerly recognised net of deferred tax in the balance sheet under UK GAAP. Under FRS 101 the pension deficit is recognised gross, with the related deferred tax balance recognised within deferred tax asset balance.

b - Dilapidations

Dilapidation provisions were formerly recognised in accruals and deferred income under UK GAAP. Under FRS 101 dilapidations are recognised under other provisions.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (CONTINUED)

24 Explanation of transition to FRS 101 (continued)

Reconciliation of profit for 2014

	UK GAAP £000	2014 Effect of transition to FRS 101 £000	FRS 101 £000
Turnover	238,560	-	238,560
Cost of sales	(182,121)	(55)	(182,176)
Gross profit	56,439	(55)	56,384
Distribution costs	(3,299)	(1)	(3,300)
Administrative expenses	(12,842)	(5)	(12,847)
Operating profit	40,298	(61)	40,237
Income from other fixed asset investment	-	506	506
Other interest receivable and similar income	552	(506)	46
Interest payable and similar charges	(1,068)	(869)	(1,937)
Profit on ordinary activities before taxation	39,782	(930)	38,852
Tax on profit on ordinary activities	(8,183)	1,071	(7,112)
Profit for the year	31,599	141	31,740

	UK GAAP £000	2014 Effect of transition to FRS 101 £000	FRS101 £000
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to the profit or loss:</i>			
Releases from the revaluation reserve on disposal of tangible assets	-	(1)	(1)
Remeasurements on defined benefit pension plan	-	(27,197)	(27,197)
Income tax on items that will not be reclassified subsequently to profit or loss	-	4,554	4,554
Previously 2014 STRGL	(22,502)	22,502	-
Other comprehensive expense for the year, net of income tax	(22,502)	(142)	(22,644)
Total comprehensive income for the year	9,097	(1)	9,096

Notes to the reconciliation of profit

Changes to the profit for 2014 relate to the transition changes in respect of the defined benefit pension plans, the Main Plan and Executive Plan. Under UK GAAP the interest expense is calculated on the schemes liabilities by applying the discount rate, and the expected return for each class of asset would be applied to schemes' assets. However, under FRS 101, the discount rate is applied to the net deficit in the scheme to calculate the net interest cost, resulting in an increased expense of £869,000.

Corresponding adjustment is made to remeasurements of defined benefit pension plans via comprehensive income, so that there is no net impact on comprehensive income.