Timken UK Limited

Report and Financial Statements

31 December 2017
Company Number: 3392504

Timken UK Limited

Company Information

Directors
A Roellgen
P Fracassa

Secretary
K Saft

Auditors
RSM UK Audit LLP
St Philips Point
Temple Row
Birmingham
West Midlands
B2 5AF

Bankers
HSBC Bank PLC
City of London Branch
60 Queen Victoria Street
London
EC4N 4TR

Solicitors
Jones & Day Reavis and Pogue
Bucklersbury House
3 Queen Victoria Street
London
EC4N 8NA

Registered Office
Timken UK Limited
C/O Revolvo UK LTD
Unit 4 Yorks Park
Blowers Green Road
Dudley
DY2 8UL

Timken UK Limited

Strategic Report

The directors present their strategic report for the year ended 31 December 2017

Review of the business

The company's principal activities continue to be the manufacture and repair of industrial and rail bearings. A sales and customer service team is also employed in the United Kingdom to meet and find global opportunities in industrial and automotive related bearings.

The key financial and other performance indicators during the year were as follows:

	2017 Total	2016 Total	Change 2016 to 2017	2016 Continuing Operations	Change 2016 Continuing Operations to 2017
	£000	£000	%	£000	%
Turnover	20,686	27,191	(24)	22,935	(10)
Gross Profit	5,690	5,455	4	4,142	37
Operating Profit/ (loss)	1,083	488	122	(110)	110
Profit after Tax	2,729	1,912	43	2,144	13
Equity shareholders' funds	21,844	17,540	25	-	-
Current assets as % of current liabilities	185%	126%	59	-	-
Average number of employees	130	160	(19)	-	-

Total turnover decreased by 24% (£6.5m) during the year which was predominately due to the closure of the Wolverhampton plant in June 2016 and a decline in Intercompany sales activity.
Continuing operational turnover for 2016 was £22.9m and when compared to 2017 continuing activity the movement is £2.2m. The 2017 decline is related to the ceasation of the Russian Rail project which Timken entered into in 2013. The project was a short term initiative to establish a foothold in Russia and provide bearings to Russian Rail. Timken UK was used to establish the core business and manufacturing process; which was then transferred over to Timken Russia in 2016.

The gross margin return remains reasonably stable, however when comparing the 2017 gross profit to 2016 continued operations gross profit of £4.1 m we see that gross profit has increased by £1.5m which is an increase of 37%. The increase in profit is related to the exit of the Russian rail project; where the turnover was circa £2m but directly attributable costs amounted to circa £3.5m.

Total operating profit increased by 122% . This is due to 2016 costs including expenditure relating to the closure of the Wolverhampton plant, however 2017 costs only included operational expenditure so to present a more comparible picture the continuing operational movement was also compared. 2016 contunuing operating loss was £110k, when compared to the 2017 operating profit the increase in profit is £1.2m, this is predominantly due to the exit of the Russian Rail project which returned a loss as per the comments above.

The defined benefit pension liability valuation under FRS 102 has moved from a surplus of £4.5m in 2016 to £9.4m in 2017, a movement of 109% during the year. The £4.9m movement in the pension valuation was primarily due to the contributions made by the company to the scheme and the scheme's assets achieving higher investment returns than expected, which significantly exceeded the discount rate assumption. The profit and loss charge related to the service and administration expense which was reduced by the interest on the net defined benefit.

The shareholders' funds remain positive. The company remains strong in terms of cash flow with strong margins, cost control, and a moderate amount in capital spending plans.

The total number of employees fell by 18% this is predominantly attributable to the closure of the Wolverhampton plant in June 2016.

Strategic Report (continued)

Future Developments

Since the closure of the Wolverhampton plant in 2016 and the exit of the Russian Rail project the Timken UK operations have shown a considerable increase in operating profit. Business is expected to remain stable and projected business plans for 2019 show consistent operational activity which is expected to be similar to 2018.

Principal risks and uncertainties

All activities and associates are subject to global policies and controls, which in some cases are amended to reflect the countries' requirements, practices and statutory needs. Establishment of risk and uncertainties therefore is guided by local management meetings and committees, corporate governance and/or statutory requirement.

- Competitive risks

The Revolvo unit sells directly to trade customers, and operate's within a limited customer base. Even with exporting to Europe, potential customer risks are limited and in all cases the start up on new contracts and opportunities is by incremental protracted steps. The other business sectors predominately sell their products on an intercompany basis so this risk is managed by those units.

- Statutory and trade compliance risk

In each sector products must be manufactured in line with statutory approvals such as ISO 9001 and the company has achieved a variety of authority approvals, for instance for Aerospace some parts require Civil Aviation authority approval. Additionally customers instigate stringent quality checks and rating processes. The company continues to meet Health and Safety regulations and is continually appraising itself of revision and new directives as they become applicable.

- Financial risk

The parent company operates under a Sarbanes Oxley regime as they are listed on the US stock exchange and that philosophy is installed into all their units globally. In the UK, the company has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives and to protect company assets from fraud or inadequate control processes. Timken UK has not entered into any hedging arrangements at 31 December 2017 and therefore has no derivative financial instruments at that date.

The company's pension scheme is currently in an accounting surplus position, however the scheme remains in a funding deficit and therefore future contributions are still required. To that extent the parent company has agreed with the trustees to put in place a floating guarantee that is legally documented between the company and the Trustees of the pension scheme. This is set to make payments to the Scheme up to a maximum amount equal to the lowest non-negative amount. When added to the assets of the Scheme, it would result in the Scheme being at least 110 per cent funded on the date on which any liability under this Deed arises.

- Exposure to price, credit, liquidity and cash flow risk

The company feels that there is minimal risk in terms of costs with the only potential problem likely to be a global escalation in the value of bearings steel and energy costs. In terms of credit risk a third of debtors shown in note 14 are intercompany. The only unit that trade with third party customers is the Revolvo business and nearly all of the customers are of substantial financial status.
The company has no problems in meeting obligations associated with normal trading conditions and is supported by the parent company in reducing the defined pension scheme deficit within an acceptable timescale.

In terms of cash flow risk, there is little exposure to variability with cash flows being very predictable and any significant pension scheme payments are funded by The Timken Company.

Strategic Report (continued)

On behalf of the board

P Fracassa
Director
24 July 2018

Timken UK Limited

Directors' Report

Registered No. 3392504

The directors present their report for the year ended 31 December 2017.

Directors of the Company

The current directors are shown on page 1.

Dividends

The directors do not recommended a final dividend (2016: £ nil) .

Research and development

The company's ultimate parent company, The Timken Company has developed a significant global footprint of Technology centres, with the largest technical centre being located in Canton, Ohio, which supports innovation and know-how for friction management product lines, such as tapered roller bearings and needle bearings. All Timken units have a commitment towards development of new and improved friction management and power transmission product designs, with a heavy influence in related steel materials and lean manufacturing processes.

Financial Instruments

Details of financial instruments are provided in the strategic report on page 3.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and it's exposure to price, credit, liquidity and cash flow risks are described on page 3.

The company has its own banking arrangements which are underpinned and agreed with its parent. The Company has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographical 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 recources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Report (continued)

Directors' liability

The company has arranged adequate directors and officer's liability insurance, to its directors. Such insurance remains in force at the date of approving the director's report.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditor is unaware.
Having made enquiries of fellow directors and the groups auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware if any relevant audit information and to establish that the auditor is aware of that information.

Appointment of auditors

In accordance with s516 of the Companies Act 2006, Ernst & Young LLP ceased to hold office as auditors of the company. In accordance with section 519 Ernst & Young LLP confirmed that there were no reasons and no matters connected to ceasing of holding office which should be bought to the attention of the member or creditors of the company. RSM UK Audit LLP were appointed as the auditors of the company on the 10th October 2017.

Auditor

RSM UK Audit LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Matters of strategic importance

Information as required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the Strategic Report.

Post Balance Sheet Events

On the 15th March 2018 one ordinary share of £1 was issued for the consideration of £2.15m.

On behalf of the board

P Fracassa
Director
24 July 2018

Statement of directors' responsibilities statement

Directors' responsibilities statement

The directors are responsible for preparing the Directors Report, Strategic 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of Timken UK Limited

Opinion
We have audited the financial statements of Timken UK Limited (the 'company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's report to the members of Timken UK Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Use of our report
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 auditor's 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.

Independent Auditor's report to the members of Timken UK Limited
(continued)

RSM UK Audit LLP

Philip Coleman (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
West Midlands, B2 5AF

Date: 30 July 2018

Timken UK Limited

Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017	2017	2016	2016	2016
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
		Continuing Operations	*Total*	*Discontinued Operations*	*Continuing Operations*	*Total*
Turnover	2	20,686	20,686	4,256	22,935	27,191
Cost of Sales		(14,996)	(14,996)	(2,943)	(18,793)	(21,736)
Gross Profit		5,690	5,690	1,313	4,142	5,455
Distribution Costs		(855)	(855)	-	(1,049)	(1,049)
Administration Expenses		(3,752)	(3,752)	(715)	(3,203)	(3,918)
Operating Profit/(Loss)	3	1,083	1,083	598	(110)	488
Income from Investments		1,000	1,000	-	1,500	1,500
Interest receivable and similar income		-	-	-	3	3
Interest payable and similar charges	5	(74)	(74)	-	(215)	(215)
Profit/(Loss) on disposal of tangible fixed assets		2	2	217	(4)	213
Other finance income	6	116	116	-	350	350
Exceptional Items						
Costs of fundamental reorganisation	7	-	-	(1,047)	256	(791)
Profit on ordinary activities before taxation		**2,127**	**2,127**	**(232)**	**1,780**	**1,548**
Tax on Profit on ordinary activities	9	602	602	-	364	364
Profit on ordinary activities after taxation		**2,729**	**2,729**	**(232)**	**2,144**	**1,912**
Other Comprehensive Income						
Remeasurement recognised on defined benefit pension schemes		1,575	**1,575**	-	(5,253)	**(5,253)**
Other Comprehensive Income		**1,575**	**1,575**	-	**(5,253)**	**(5,253)**
Total comprehensive income for the financial year		**4,304**	**4,304**	**(232)**	**(3,109)**	**(3,341)**

Timken UK Limited

Statement of Changes in Equity

For the year ended 31 December 2017

	Called up Share Capital £'000	Share Premium £'000	Profit and Loss Account £'000	Total £'000
As at January 2016	**3,500**	**46,400**	**(29,019)**	**20,881**
Profit for the Year	-	-	1,912	1,912
Other Comprehensive Income	-	-	(5,253)	(5,253)
Total Comprehensive Income for the Year	-	-	(3,341)	(3,341)
As at 31 December 2016	**3,500**	**46,400**	**(32,360)**	**17,540**
Profit for the Year	-	-	2,729	2,729
Other Comprehensive Income	-	-	1,575	1,575
Total Comprehensive Income for the Year	-	-	4,304	4,304
As at 31 December 2017	**3,500**	**46,400**	**(28,056)**	**21,844**

Timken UK Limited

Statement of Financial Position

For the year ended 31 December 2017

	Note	2017	2016
		£'000	£'000
Fixed Assets			
Intangible Assets	10	2,271	2,452
Tangible assets	11	1,364	1,439
Investments	12	8,233	8,232
		11,868	**12,123**
Current Assets			
Stocks	13	5,639	5,665
Debtors	14	2,435	2,692
Cash at bank and in hand		93	3,669
		8,167	12,026
Creditors: amounts falling due within one year	15	(4,287)	(9,523)
Net Current Assets		**3,880**	**2,503**
Total Assets less Current Liabilities		**15,748**	**14,626**
Defined benefit pension asset	20	6,096	2,914
Net Assets		**21,844**	**17,540**
Capital and Reserves			
Called up share capital	18	3,500	3,500
Share Premium	19	46,400	46,400
Profit and loss account		(28,056)	(32,360)
Total Equity		**21,844**	**17,540**

The financial statements were approved by the Board of Directors on 24 July 2018
Signed on behalf of the board of directors:

P Fracassa
Director

Notes to the financial statement
For the year ended 31 December 2017

1. Accounting policies

Company Information
Timken UK Limited is a private limited company incorporated in England. The Registered Office is York Park, Dudley. DY2 8UL.

Basis of preparation
The financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000, except where otherwise indicated.

The financial statements present information about the Company as an individual undertaking and not as a group. The company has taken advantage of the exemption in section 400 of the Companies Act 2006 not to produce consolidated financial statements as it is included in the consolidated financial statements of The Timken Company, a company incorporated in the USA, which are available to the public from it's registered office: 1835 Dueber Avenue, S.W., PO Box 6927, Canton, Ohio 44-706-0927, USA.

The company has taken the following disclosure exemptions under FRS 102:

- the requirements of Section 4 – Statement of Financial Position, paragraph 4.12(a)(iv) to disclose a reconciliation of the number of shares outstanding at the beginning and at the end of the period
- the requirements of Section 7 – Statement of Cash Flows – and Section 3 – Financial Statement Presentation, paragraph 3.17(d) to present a cash flow statement
- the requirements of Section 11, paragraphs 11.39 to 11.48A and Section 12, paragraphs 12.26 to 12.29A in relation to disclosure requirements of financial instruments
- the requirement of Section 33 – Related Party Disclosures, paragraph 33.7, to disclose key management personnel compensation

Judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Goodwill and other intangible assets
The Company establishes a reliable estimate of the useful life of goodwill and other intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Notes to the financial statement

For the year ended 31 December 2017

1. Accounting policies (continued)

Pension and other post-employment benefits

The cost of defined benefit pension 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. In determining the appropriate discount rate, the pension trustees considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 20.

Taxation

The Company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon 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.

Goodwill

Positive goodwill acquired on each business combination is capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its useful life.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination.

If a subsidiary, associate or business is subsequently sold or discontinued, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or discontinuance.

Goodwill arising on the acquisition of Revolvo Limited is being amortised evenly over the directors estimate of its useful life of 15 years which is in line with the Technology & Customer Relationships amortisation as per intangible assets note below.

The estimated useful life is based on a variety of factors such as the expected use of the acquired business, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Having considered these factors the directors believe that a useful life of 15 years is appropriate for goodwill.

Going Concern

The directors have at the time of approving the financial statements, 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 financial statements.

Notes to the financial statement
For the year ended 31 December 2017

1. Accounting policies (continued)

Intangible assets
Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.
Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.
The useful economic lives of intangible assets are as follows:

Trade name/ Trademarks	–10 year's straight line
Customer Relationships	–15 years' straight line
Technology	–15 year's straight line
Software	–3/7 year's straight line

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

Impairment of non-financial assets
The Company assesses at each reporting date whether an asset may be impaired. If any such indication exists the Company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company estimates, the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.
An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

- Leasehold Property - over the shorter of the lease term and 50 years
- Plant & Machinery - over 3 to 12 years
- Office Equipment - over 3 to 5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.
Assets in the course of construction are carried at cost, less any identified impairment loss. Depreciation commences when the assets are ready for their intended use.

Notes to the financial statement

For the year ended 31 December 2017

1. Accounting policies (continued)

Investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit and loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw Materials, consumables and goods for resale	- purchase cost on a first in, first- out basis.
Work in progress and finished goods	- cost of direct materials, labour and attributable overheads based on a normal level of activity

Stock Impairement

At each reporting date, the Company assesses whether stocks are impaired or if an impairment loss recognised in prior periods has reversed. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the financial statement

For the year ended 31 December 2017

1. Accounting policies (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the ruling rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks.

Financial assets

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other receivables, amounts due from group undertakings and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit and loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when the financial asset and substantially all the risks and rewards of ownership are transferred to another entity.

Financial liabilities

Basic financial liabilities, which include trade and other payables and amounts due to group undertakings, are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

1. Accounting policies (continued)

Derecognition of financial liabilities
Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expire.

Equity instruments
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Pensions and other post-retirement benefits
The Company operates a defined benefit pension scheme, which requires contributions to be made to separately administered funds. The UK scheme was closed to new members in 2006 from which time membership of a defined contribution plan is available. The defined benefit pension scheme was closed to future accrual from 1 July 2015, although active employees retain the link to future salary increases in their benefits.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit and loss in subsequent periods.

The defined net benefit pension asset or liability in the balance sheet comprises the total of the plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

Timken UK Limited is the sponsoring employer of the United Kingdom defined benefit scheme as it has legal responsibility for the plan. There is no contractual agreement or stated policy for charging the defined benefit cost of the plan as a whole to individual group entities and therefore the company has recognised the entire net defined benefit cost and relevant net defined benefit liability of the United Kingdom scheme in its individual financial statements.

A pension surplus is recognised to the extent that the Company is able to recover the surplus either through reduced future contributions or through refunds from the plan. As there is minimal guidance in FRS 102 on the recoverability of a pension surplus the Company has made reference to EU-adopted IFRS. Where the pension surplus is recoverable through a refund from the scheme which would be subject to a tax of 35%, this is treated as a refund tax and is deducted from the pension surplus recognised. No liability is recognised in respect of minimum funding requirements in accordance with FRS 102.

Notes to the financial statement
For the year ended 31 December 2017

1. Accounting policies (continued)

Revenue recognition
Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service Revenue
Revenue from services performed on behalf other intercompany entities, is recognised when incurred. Such services include payroll, technical services, business strategy development and overall management of sales and marketing. Revenue is recognised as cost, based on an hourly rate as per an intercompany service agreement, plus a five per cent mark-up.

Commissions
Revenue is received from other Timken Entities for sales and marketing services provided throughout the financial period. The charge is based upon an annual study carried out by Timken US which calculates a % to be applied to monthly sales into another entities "sales territory". The income is recognised on a monthly basis in the form of an intercompany commisions memo.

Operating lease commitments
The Company has entered into commercial property leases as a lessee on its office premises and company vehicles. Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term.

Exceptional Items
The Company presents as exceptional items those material items of income and expense which, because of their nature and expected infrequency of 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 statement

For the year ended 31 December 2017

2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.
The company operates in one principal area of activity, that of the manufacture and repair of high precision aerospace, rail and process industries bearings.
Turnover is analysed as follows:

Split by Activity	**2017**	**2016**
	£'000	**£'000**
Sale of goods	17,359	23,530
Commissions	2,721	2,850
Rendering of Services	606	811
Total	**20,686**	**27,191**

Geographical Segments:	**2017**	**2016**
Continuing Operations:	**£'000**	**£'000**
UK	2,803	2,243
Rest of Europe	15,417	17,270
Northern America	1,109	2,218
Rest of World	1,357	1,204
Total	**20,686**	**22,935**
Discontinued Operations:		
UK	-	4,121
Rest of Europe	-	56
Northern America	-	81
Rest of World	-	(2)
Total	-	**4,256**

3. Operating Profit/ (Loss)

This is stated after charging:

		2017	**2016**
		£'000	**£'000**
Depreciation of owned assets		357	449
Amortisation of goodwill		51	51
Amortisation of intangible assets		171	144
Total depreciation and amortisation charge		**579**	**644**
Stock Impairment			
Movement in provision		(1,269)	641
Cost of stock			
Amount expensed in cost of sales		8,339	11,386
Foreign Exchange differences		(595)	369
Operation lease rentals	– land and building	481	570
	– plant and machinery	233	219
		714	**789**

Notes to the financial statement
For the year ended 31 December 2017

4. Auditors Remuneration
Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services are as follows;

	2017 £'000	2016 £'000
Audit of Statutory Accounts	25	-
Total Audit	**25**	**-**
Taxation Compliance Services	8	9
Taxation Advisory Services	4	7
Total non –audit	**12**	**16**
	37	**16**

5. Interest Payable and similar charges

	2017 £'000	2016 £'000
Interest Expense - Intercompany	72	215
Third party charges	2	
	74	215

6. Finance Income

	2017 £'000	2016 £'000
Interest on defined benefit pension liability	116	350
	116	350

7. Exceptional Items

		2017 £'000	2016 £'000
Reorganisation costs re closure of Wolverhampton plant:			
	– Severance provision	-	2
	– Facility clean up	-	605
	– Obsolete inventory	-	52
	– Accelerated dep'n	-	64
		-	723
Reorganisation costs of Coventry office	– Severance paid	-	68
		-	**791**

8. Staff Costs

	2017 £'000	2016 £'000
Wages and salaries	4,483	5,130
Social security costs	463	553
Defined contribution pension costs	243	272
	5,189	**5,955**

The monthly average number of employees during the year was as follows:

	2017 No.	2016 No.
Production Staff	83	115
Administrative Staff	47	45
	130	**160**

The directors are remunerated by other group companies. A recharge of £45,776 is made for their services based upon an allocation of time spent. (2016: £60,409)

9. Tax.

(a) Tax on profit on ordinary activities
The tax charge is made up as follows:

	2017 £000	2016 £000
Current year UK corporation tax	(275)	(364)
Adjustment in respect of previous periods	(327)	
Total current tax	(602)	(364)
Total tax credit	(602)	(364)

The tax credit for the year can be reconciled to the profit per the income statement as follows:

	2017	2016
Profit on ordinary activities before tax	2,127	1,548
Tax on profit at standard UK tax rate of 19.25% (2016: 20%)	409	310
Effects of:		
Expenses not deductible	3	3
Income not taxable	(192)	(300)
Deferred tax not recognised	(495)	(13)
Adjustment in respect of historic group relief surrendered	(327)	(364)
Tax credit for the period	(602)	(364)

Notes to the financial statement
For the year ended 31 December 2017

9. Tax (continued)

(b) Factors affecting total tax charge

The standard rate of UK corporation tax reduced from 20% to 19% with effect from 1 April 2017. Accordingly, the Company's profits for this accounting period are taxed at 19.25% (2016: 20%). Legislative changes reducing the main rate of corporation tax to 17% from April 2020 had been substantively enacted by the balance sheet date. The items of deferred tax noted below have therefore been translated at a rate of 17%.

(c) Deferred tax	**2017**		**2016**	
	£'000		**£'000**	
	Provided	Not Provided	Provided	Not Provided
Fixed assets differences	(479)	-	(401)	(72)
Timing differences	1,494	-	401	-
Tax losses	(1,015)	(5,312)	-	(6,586)
Total	-	(5,312)	-	(6,658)

Notes to the financial statement
For the year ended 31 December 2017

10. Intangible Assets

	Tradename/ Trademark £'000	Technology £'000	Customer Relationships £'000	Goodwill £'000	Software £'000	Total £'000
Cost:						
As at 1 January 2017	120	770	900	771	520	3,081
Additions	-	-	-	-	42	42
Disposals					(1)	(1)
As at 31 December 2017	120	770	900	771	561	3,122
Amortisation:						
As at 1 January 2017	(25)	(106)	(127)	(105)	(266)	(629)
Provided in the Year	(12)	(51)	(60)	(51)	(48)	(222)
Disposals	-	-	-	-	-	-
As at 31 December 2017	(37)	(157)	(187)	(156)	(314)	(851)
Carrying amount:						
As at 31 December 2017	**83**	**613**	**713**	**615**	**247**	**2,271**
As at 1 January 2017	95	664	773	666	254	2,452

The amortisation of goodwill and other intangible assets are included within administration expenses.

Notes to the financial statement

For the year ended 31 December 2017

11. Tangible Fixed Assets

	Leasehold Property £'000	Office Equipment £'000	Plant & Machinery £'000	Assets under Construction £'000	Total £'000
Cost:					
At 1 January 2017	368	616	3,092	115	4,191
Additions	-	24	253	5	282
Transfers	-		115	(115)	-
At 31 December 2017	368	640	3,460	5	4,473
Depreciation:					
At 1 January 2017	(240)	(437)	(2,075)	-	(2,752)
Provided during the year	(21)	(67)	(269)	-	(357)
As 31 December 2017	(261)	(504)	(2,344)	-	(3,109)
Net Book Value:					
As at at 31 December 2017	**107**	**136**	**1,116**	**5**	**1,364**
At 31 December 2016	128	179	1,017	115	1,439

12. Investments

Subsidiary undertakings	**Total £000**
Cost as at 1 January and 31 December 2017	8,233

Name	Interlube Limited Registered Adress: First Floor Black Country House. Rounds Green Road. Oldbury. West Midlands.
Percentage Shareholding	100%
Class of shares	Ordinary
Nature of Business	Manufacture of component lubrication

13. Stocks

	2017 £'000	**2016 £'000**
Raw materials	447	287
Work in progress	1,850	1,813
Finished goods	3,342	3,565
	5,639	**5,665**

The difference between purchase price and production cost of stocks and their replacement cost is not material.

Notes to the financial statement
For the year ended 31 December 2017

14. Debtors

	2017	2016
	£'000	£'000
Trade debtors	1,388	815
Amounts owed by group undertakings	751	1,551
Other debtors	99	137
Prepayments and accrued income	197	189
	2,435	2,692

15. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	949	905
Amounts owed to group undertakings	2,370	7,923
Other taxation and social security	51	-
Bank overdraft	69	-
Other creditors	848	695
	4,287	9,523

The 2016 loan payable to the Timken Group Treasury of €8m was paid on the maturity date of 20 October 2017. Timken UK entered into an agreement with Timken Interlube Sytems for two loans payable totalling £1.8m which have a maturity date of 25 October 2018 (£1m) and 13 December 2018 (£0.8m) with an interest rate of 0.952% (£1m) and 1.2% (£0.8m) p.a.

16. Financial Instuments

	2017	2016
	£'000	£'000
Financial Assets:		
Debt Instruments at amortised cost	2,238	2,503
	2,238	2,503
Financial liabilities:		
Measured at amortised cost	4,167	9,523
	4,167	9,523

Notes to the financial statement
For the year ended 31 December 2017

17. Commitments under operating leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017		2016	
	Land and buildings £'000	**Other £'000**	**Land and buildings £'000**	**Other £'000**
Not later than one year	472	237	458	163
Later than one year but not later than five years	1,607	186	1,594	189
Later than five years	245	2	174	-
	2,324	**425**	**2,226**	**352**

18. Allotted and issued share capital

Allotted, called-up and fully paid	2017 £	2016 £
Ordinary shares of £1	3,500,006	3,500,006

The company has one class of ordinary shares which have full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

19. Reserves

Share Premium Account
This reserve records the amount above the nominal value received for shares sold, less transaction costs.
Profit and loss account
Cumulative profit and loss net of distributions to owners.

20. Pensions

The Company operates a defined benefit (DB) pension scheme and a defined contribution pension scheme (DC).

In respect of the defined contribution pension scheme, the contributions payable by the Company charged to profit or loss amounted to £243,169 (2016: £271,914).

The DB section of the scheme is now closed to new entrants and was closed to future accrual from 1 July 2015, though active employees retain the link to future salary increases in their benefits.
The last formal actuarial valuation of the scheme was complete as at 5 April 2017. The results of these calculations have been updated to 31 December 2017 by a qualified independent actuary.
The present value of the defined benefit obligation, the current service cost and any past service costs were measured using the projected unit credit method. Actuarial gains and losses have been recognised in the period in which they occur through OCI.

20. Pensions (continued)

	2017	2016
	£'000	£'000
Scheme assets at fair value:		
Equities	18,784	27,157
Bonds	63,746	60,504
Others	117,300	112,021
Fair value of scheme assets	**199,830**	**199,682**
Present value of funded defined benefit obligation	**(190,452)**	**(195,199)**
Refund tax	(3,282)	(1,569)
Pension Asset	**6,096**	**2,914**

The amounts recognised in the Statement of Comprehensive Income are analysed as follows:

	2017	2016
	£'000	£'000
Recognised in the Profit and Loss Account :		
Administration expense	650	1,125
Net interest on the defined benefit liability	(116)	(350)
Recognised in arriving at operating profit	534	775

	2017	2016
Recognised in the other comprehensive income:	£'000	£'000
Total actuarial (gains)/losses	(3,289)	7,350
Refund tax relating to defined benefit pension asset	1,714	(2,097)
Remeasurement (gains)/losses recognised in other comprehensive income	**(1,575)**	**5,253**

	2017	2016
Main assumptions	%	%
Discount Rate (% pa)	2.35	2.5
Rate of salary increases (% pa)	3.3	3.5
RPI Inflation (% pa)	3.3	3.5
CPI Inflation (% pa)	2.2	2.4
Pension increases: RPI, maximum 5%, minimum 0% (pa)	3.3	3.3
Pension increases: 30% of RPI, maximum 1.5%, minimum 0% (% pa)	1.0	1.0
Male life expectancy:		
Retiring at age 65 now (years)	86.3	86.4
Retiring at ages 65 in 20 years (years)	87.7	88.1
Female life expectancy:		
Retiring at age 65 now (years)	88.2	88.4
Retiring at ages 65 in 20 years (years)	89.7	90.3

Notes to the financial statement
For the year ended 31 December 2017

20. Pensions (continued)

Changes in the defined benefit liabilities

	2017	2016
	£000	£000
Opening defined benefit liability	195,199	167,941
Interest cost	4,777	6,142
Actuarial loss on liability	1,612	34,902
Benefits paid	(11,136)	(13,786)
Closing defined benefit liability	**190,452**	**195,199**

Changes in the value of assets

	2017	2016
	£000	£000
Opening fair value of assets	199,682	178,409
Interest income on assets	4,893	6,492
Company contributions	2,140	2,140
Actuarial gain	4,901	27,552
Benefits paid	(11,136)	(13,786)
Expenses paid	(650)	(1,125)
Closing fair value of assets	199,830	199,682

The company expects to pay annual contributions of £2.14m to the scheme, payable in March each year, beginning March 2016 which final payment due in March 2022.

21. Subsequent Events

On the 15 March 2018 one ordinary share of £1 was issued for the consideration of £2.15m.

22. Related Parties

The Company did not enter into any related party transactions other than those with with wholly owned fellow group entities which do not require disclosure under section 33 of FRS 102.

23. Ultimate Parent Company

The company's immediate and ultimate parent undertaking and controlling party at 31 December 2017 is The Timken Company incorporated in the USA. The results of Timken UK Limited are included in the consolidated results of the Timken Company and there are no other companies in to which the results are consolidated. Copies of its accounts which include the Company are available from 1835 Dueber Avenue, S.W., PO Box 6927, Canton, Ohio 44-706-0927, USA.

24. Capital commitments

As at 31 Decemeber 2017 the Company had entered into a capital agreement of £49,592 for a surface grinding machine which was to be utilised at the Revolvo plant.