COMPANY REGISTRATION NUMBER 11120110

Group Package Accounts

GATES UK FINANCE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 28 DECEMBER 2019

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CONTENTS	PAGE
Officers and professional advisors	2
Directors' report	3
Directors' responsibility statement	5
Independent auditor's report	6
Profit and loss account	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11

DIRECTORS

N.A. Rogers

M.G. Swanson

C.C. Bracken

SECRETARY

Intertrust (UK) Limited
1 Bartholomew Lane
London
EC2N 2AX

AUDITORS

Armstrong Watson Audit Limited
51 Rae Street
Dumfries
DG1 1JD

REGISTERED OFFICE

1 Bartholomew Lane
London
EC2N 2AX

The Directors present their report and the annual financial statements of Gates UK Finance Limited ('the Company') for the period ended 28 December 2019. The Directors' report has been prepared in accordance with the special provisions relating to small companies under section 444(5) of the Companies Act 2006 and the company is therefore exempt from preparing a Strategic Report.

In this annual report, the term 'the Group' refers to Gates Industrial Corporation plc and its subsidiaries.

The Company was incorporated on 20 December 2017 and is a wholly owned subsidiary of Gates Industrial Corporation plc. The Company received the proceeds of the Initial Public Offering, Project Water Tower which were then loaned to Gates Global LLC, an indirect parent of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the current period was that of an investment holding company.

BUSINESS REVIEW

The directors are satisfied with the results for the period, and consider the Company's financial position at the end of the period to have been satisfactory.

RESULTS AND DIVIDENDS

The results for the period and the Company's financial position at the end of the period are shown in the attached financial statements.

A dividend of $46.0 million was paid during the period (2018: nil).

GOING CONCERN

Based on the internal forecasts and projections that take into account reasonable possible changes in the Company's trading performance, the directors believe that the Company has adequate financial resources to continue in operation for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Company's financial statements.

FINANCIAL INSTRUMENTS

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the directors consider relevant to this Company are credit risk, liquidity risk and currency risk. These risks, apart from currency risk, are mitigated by the nature of the debtor balances owed, with these due from other Group companies who are able to repay these if required.

THE DIRECTORS

The directors of the Company who were in office throughout the period and in the subsequent period, except where noted, are as follows:

N.A. Rogers	
J.S. Seely	(resigned 30 March 2020)
M.G. Swanson	
C.C. Bracken	(appointed 30 March 2020)

COVID-19

We would refer to the Directors' Report of Gates International Corporation and the uncertainties created by the global pandemic on our outlook for 2020 and beyond.

The first quarter of 2020 marked the beginning of an unprecedented environment for the global economy, as governments, companies and communities implemented strict measures to minimize the spread of the Covid-19 pandemic. We are prioritising the health and safety of our employees and the communities around the world in which we operate, taking additional protective measures in our plants to safely maintain operational continuity in support of our global customer base.

As a non-trading company within the group, the effects of the pandemic on our results are limited to exposure to movements in currency rates and investment valuations.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the directors on 15 September 2020 and signed on their behalf by:

N.A. Rogers
Director

The directors are responsible for preparing their report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. The directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company at the end of the financial period and of its profit or loss for the financial period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and to 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.

OPINION

We have audited the financial statements of Gates UK Finance Limited ('the Company') for the period ended 28 December 2019, which comprise the profit and loss account, balance sheet, the statement of changes in equity and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the Company's financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 December 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- *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 Accounting (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' 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 United Kingdom, including the Financial Reporting Council'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 directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' report thereon. 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 other information and, in doing so, consider whether the other information is materially consistent 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 this fact.

We have nothing to report in this regard.

OPINION 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 Directors' report for the financial period for which the financial statements are prepared is consistent with those financial statements; and
- the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's 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 on page 5, 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 cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilites. 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 Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or the opinions we have formed.

Douglas Russell CA (Senior Statutory Auditor)
for and on behalf of
Armstrong Watson Audit Limited
Chartered Accountants and Statutory Auditors
Dumfries, United Kingdom
30 September 2020

	Note	Period ended 28 December 2019 $m	Period ended 29 December 2018 $m
Administration (expenses) / income		**(0.3)**	**0.3**
OPERATING (LOSS) / PROFIT	3	**(0.3)**	**0.3**
Interest on loans to group undertakings		**41.1**	**31.1**
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION AND FOR THE FINANCIAL PERIOD		**40.8**	**31.4**
Tax on profit on ordinary activities	5	**(7.8)**	**(6.0)**
PROFIT FOR THE FINANCIAL PERIOD		**33.0**	**25.4**

All of the activities of the Company are classed as continuing.

During the current and previous period, the Company had no other comprehensive income attributable to the shareholders other than those presented in the profit and loss account above and therefore no statement of comprehensive income is presented.

Gates UK Finance Limited
Balance sheet
As at 28 December 2019

	Note	As at 28 December 2019 $m	As at 29 December 2018 $m
CURRENT ASSETS			
Debtors due within one year	6	4.2	31.1
Debtors due after more than one year	6	830.0	799.7
		834.2	830.8
CREDITORS: Amounts falling due within one year	7	(8.1)	(5.7)
NET ASSETS		826.1	825.1
CAPITAL AND RESERVES			
Ordinary share capital		0.1	0.1
Share premium account		-	799.6
Profit and loss account reserve		826.0	25.4
SHAREHOLDER'S FUNDS		826.1	825.1

The financial statements of Gates UK Finance Limited (registered number 11120110) were approved by the board of directors and authorised for issue on 26 September 2020. They were signed on its behalf by:

N.A. Rogers
Director

Gates UK Finance Limited
Statement of changes in equity
As at 28 December 2019

EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

	Share premium $m	Ordinary share capital $m	Profit and loss account reserve $m	Total: Shareholder's funds $m
Issue of 100 ordinary shares of $1.00 each	-	-	-	-
Issue of 2 ordinary shares of $1.00 each	695.5	-	-	695.5
Issue of 100,000 ordinary shares of $1.00 each	104.1	0.1	-	104.2
Profit for the financial period	-	-	25.4	25.4
As at 29 December 2018	**799.6**	**0.1**	**25.4**	**825.1**
Profit for the financial period	-	-	33.0	33.0
Dividend paid	-	-	(46.0)	(46.0)
Issue of 2 ordinary shares of $1.00 each	14.0	-	-	14.0
Share premium cancellation	(813.6)	-	813.6	-
As at 28 December 2019	**-**	**0.1**	**826.0**	**826.1**

1. ACCOUNTING POLICIES

General information and basis of preparation

Gates UK Finance Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The registered office is 1 Bartholomew Lane, London, EC2N 2AX. The nature of the Company's operations and its principal activities are set out in the directors' report on pages 3 and 4.

The functional currency of Gates UK Finance Limited is considered to be US Dollar because that is the currency of the primary economic environment in which the Company operates as the Group's business is largely located overseas, principally in the US and most of the Company's loans and financing are denominated in US Dollar.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its indirect parent, Gates Industrial Corporation plc, which may be obtained from the Companies House website. Exemptions have been taken in these separate Company financial statements in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel. Gates Industrial Corporation plc prepares consolidated financial statements in accordance with US GAAP.

Going concern

The financial statements have been prepared on the going concern basis for the reasons explained in the Directors' report and under the historical cost convention in accordance with the Companies Act 2006 and applicable FRS 102.

The financial statements are presented in US dollars.

Accounting period

These financial statements cover the period from 30 December 2018 to 28 December 2019 ('2019') with comparative figures for the period from 31 December 2017 to 29 December 2018 ('2018').

Foreign currency translation

Transactions denominated in foreign currencies are translated into US dollars at the exchange rate ruling on the date of the transaction, or if hedged, at the exchange rate specified in the related foreign currency contract.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date or, if hedged, at the exchange rate specified in the related foreign currency contract.

Currency translation differences are recognised in the profit and loss account.

Tax

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes items of income or expense that are recognised in the period for accounting purposes but are either not taxable or deductible for tax purposes or are taxable or deductible in other periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on a full provision basis on timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax assets are recognised only to the extent that it is considered more likely than not that future taxable profits will be available against which the asset can be utilised. Deferred tax is determined using the tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

In accordance with the requirements of the ultimate parent undertaking, the Company makes or receives payment in respect of group relief surrendered at 100% of the value of the relief given.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY SEGMENT INFORMATION

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements and those involving estimations that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Taxation

The Company's tax charge on ordinary activities is the sum of the total current tax and deferred tax charges and credits. The calculation of the total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be readily determined until resolution has been reached with the relevant tax authority.

3. OPERATING (LOSS) / PROFIT

Fees payable to the Company's auditor, Armstrong Watson Audit Limited, in respect of the audit of the Company's financial statements were $3,902 (2018 $3,620).

4. EMPLOYEES

There were no employees in the current or prior period and no part of the director's remuneration was specifically attributable to their services to the Company.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of income tax charge in the period

	2019 $m	2018 $m
UK tax:		
– UK Corporation tax on the results for the period	7.8	6.0
Foreign tax:		
– Current tax on the results for the period	-	-
Total current tax charge	7.8	6.0

(b) Factors affecting the current tax charge

The difference between the total current tax charge shown above and the amount calculated by applying the standard rate of UK Corporation tax to the profit on ordinary activities before taxation may be analysed as follows:

	2019 $m	2018 $m
Profit on ordinary activities before taxation	40.8	31.4
Tax at the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	7.8	6.0
Total current tax charge	7.8	6.0

A further reduction to the UK Corporation tax rates to 17% was substantively enacted as part of Finance Bill 2016.

In November 2019, the UK Government announced their intention to cancel the further reduction in the corporation tax rate from 19% to 17%, however, this announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted rate of 17%. It is possible however that the corporation tax rate will remain at 19% after 1 April 2020.

6. DEBTORS

	As at 28 December 2019 $m	As at 29 December 2018 $m
Due within one year		
Amounts owed by Group undertakings	4.2	31.1
Due after more than one year		
Amounts owed by Group undertakings	830.0	799.7
	834.2	830.8

Amounts owed by group undertakings are classified as falling due after more than one year where there is a formal loan agreement in place with an expiry date falling due more than one year from the reporting date. Where the loan agreement has expired or no loan agreement is in place the amounts are classified as repayable on demand and are shown as falling due within less than one year.

7. CREDITORS: Amounts falling due within one year

	As at 28 December 2019 $m	As at 29 December 2018 $m
Amounts owed to Group undertakings	8.1	5.7

8. ORDINARY SHARE CAPITAL

Allotted, issued and fully paid	Number of shares	Nominal value $m
As at 29 December 2018		
– Ordinary shares of $1 each	**100,102**	**0.1**
As at 28 December 2019		
– Ordinary shares of $1 each	**100,104**	**0.1**

The Company has one class of ordinary share, each of which carry equal voting rights but no right to fixed income.

On 22 November 2019 Finco Omaha Ltd. subscribed for an additional 2 ordinary shares of 1.00 USD each in the capital of the Company at a subscription price of 7 million USD per share.

9. ULTIMATE PARENT UNDERTAKING

Finco Omaha Ltd., which is incorporated in the United Kingdom, is the Company's immediate parent undertaking.

Gates Industrial Corporation plc, a company incorporated in England and Wales, is the Company's ultimate parent undertaking. Gates Industrial Corporation plc is a public company listed on the New York Stock Exchange. Consolidated financial statements are prepared and filed with Companies House in the United Kingdom (website, www.companieshouse.gov.uk) and also on the Gates Corporate website (https://investors.gates.com/financials/annual-reports/UK-Annual-Reports). Gates Industrial Corporation plc prepares consolidated financial statements in accordance with US GAAP and is the parent undertaking of the smallest group in which the Company is consolidated.

10. RELATED PARTY TRANSACTIONS

These financial statements are part of the consolidated financial statements prepared by Gates Industrial Corporation plc, therefore the Company is exempt under FRS 102 Section 33 'Related Party Disclosures', from disclosing transactions with entities that are part of the group headed by Gates Industrial Corporation plc.

During the current period, there were no transactions or outstanding balances with anyone outside the Gates Group.

11. SUBSEQUENT EVENTS

The first quarter of 2020 marked the beginning of an unprecedented environment for the global economy, as governments, companies and communities implemented strict measures to minimize the spread of the Covid-19 pandemic. We are prioritizing the health and safety of our employees and the communities around the world in which we operate, taking additional protective measures in our plants to safely maintain operational continuity in support of our global customer base.

As a non-trading company within the group, the effects of the pandemic on our results are limited to exposure to movements in currency rates and investment valuations which have been carefully considered in the financial statements.

Gates Industrial Corporation plc

Annual Report and Financial Statements
December 28, 2019

Registered Number 10980824

Registered Office:
1 Bartholomew Lane, London
EC2N 2AX
United Kingdom

ABOUT THIS ANNUAL REPORT

Forward-looking Statements

This annual report contains forward-looking statements that reflect our current views with respect to, among other things, our operations and financial performance. Forward-looking statements include all statements that are not historical facts. In some cases, you can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "could," "seeks," "predicts," "intends," "trends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those expressed in our forward-looking statements. These factors include but are not limited to those described under "Principal Risks and Uncertainties" of this annual report. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this annual report and in our other periodic filings. We undertake no obligation to update or supplement any forward-looking statements as a result of new information, future events or otherwise, except as required by law.

Financial Statement Presentation

Gates Industrial Corporation plc (the "Company") is a public limited company that was incorporated under the Companies Act 2006 on September 25, 2017 and is registered in England and Wales. Following the completion of certain reorganization transactions undertaken prior to its initial public offering ("IPO") in January 2018, as described further in note 1 to the accompanying consolidated financial statements, the Company became our ultimate parent company. The Company is listed on the New York Stock Exchange.

Certain monetary amounts, percentages and other figures included elsewhere in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables or charts may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

All amounts in this annual report are expressed in United States of America (the "United States" or "U.S.") dollars, unless indicated otherwise.

Certain Definitions

As used in this annual report, unless otherwise noted or the context requires otherwise:

- "Omaha Topco" refers to Omaha Topco Limited, which was the ultimate parent entity of the Gates business prior to the reorganization transactions referred to above. Omaha Topco was formed by affiliates of The Blackstone Group Inc. primarily as a vehicle to finance the acquisition of the Gates business by investment funds managed by Blackstone in July 2014;
- "Gates," the "Company," the "Group," "we," "us" and "our" refer (1) prior to the completion of the reorganization transactions completed immediately prior to the initial public offering, to Omaha Topco and its consolidated subsidiaries and (2) after the completion of the reorganization transactions, to Gates Industrial Corporation plc and its consolidated subsidiaries, as the case may be;
- "Fiscal 2019" refers to the fiscal year ended December 28, 2019; "Fiscal 2018" refers to the fiscal year ended December 29, 2018; and "Fiscal 2017" refers to the fiscal year ended December 30, 2017;
- "Blackstone" or "our Sponsor" refer to investment funds affiliated with The Blackstone Group Inc., which, although no individual fund owns a controlling interest in us, together represent our current majority owners.

TABLE OF CONTENTS

Strategic Report	1
Directors' Report	43
Statement of Directors' Responsibilities	48
Directors' Remuneration Report	49
Independent Auditor's Report to the Shareholders	64
Consolidated Gates Industrial Corporation plc Financial Statements	73
Consolidated Statements of Operations	74
Consolidated Statements of Comprehensive Income	75
Consolidated Balance Sheets	76
Consolidated Statements of Cash Flows	78
Consolidated Statements of Shareholders' Equity	80
Notes to the Consolidated Financial Statements	81
Parent Company Financial Statements	128
Parent Company Balance Sheets	128
Parent Company Statement of Changes in Equity	129
Notes to Parent Company Financial Statements	130

Gates Industrial Corporation plc

STRATEGIC REPORT

The directors present their Strategic Report for the year ended December 28, 2019. This report is comprised of the following sections:

I. **Strategy and Outlook**

II. **Business Overview**

III. **Principal Risks and Uncertainties**

IV. **Business Trends**

V. **Key Performance Indicators**

VI. **Business Performance**

VII. **Liquidity and Capital Resources**

VIII. **Critical Accounting Estimates and Judgments**

IX. **Financial Risk Management Objectives and Policies**

X. **Employees**

XI. **Environmental Matters**

This Strategic Report has been prepared for the Group for the year ended December 28, 2019 consistent with the basis of preparation of the accompanying consolidated financial statements. As further explained in note 1 to the accompanying consolidated financial statements, Gates Industrial Corporation plc was incorporated as the new holding company for the existing Gates business. For the period from incorporation on September 25, 2017 until the reorganization transactions effected on January 29, 2018, Gates Industrial Corporation plc itself did not undertake any significant activities.

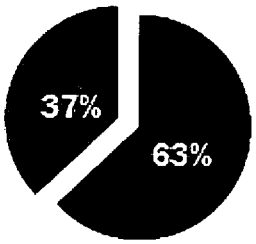
I. Strategy and Outlook

We are a global manufacturer of innovative, highly engineered power transmission and fluid power solutions. We offer a broad portfolio of products to diverse replacement channel customers, and to original equipment ("first-fit") manufacturers as specified components, with the majority of our revenue coming from replacement channels. Our products are used in applications across numerous end markets, which include construction, agriculture, energy, automotive, transportation, general industrial, consumer products and many others. Our net sales have historically been, and remain, highly correlated with industrial activity and utilization, and not with any single end market given the diversification of our business and high exposure to replacement markets. Key indicators of our performance include industrial production, industrial sales and manufacturer shipments. We sell our products globally under the Gates brand, which is recognized by distributors, equipment manufacturers, installers and end users as a premium brand for quality and technological innovation; this reputation has been built for over a century since Gates' founding in 1911.

Within the diverse end markets we serve, our highly engineered products are often critical components in applications for which the cost of downtime is high relative to the cost of our products, resulting in the willingness of end users to pay a premium for superior performance and availability. These applications subject our products to normal wear and tear, resulting in a natural replacement cycle that drives high-margin, recurring revenue. Our product portfolio represents one of the broadest ranges of power transmission and fluid power products in the markets we serve, and we maintain long-standing relationships with a diversified group of blue-chip customers throughout the world. As a leading designer, manufacturer and marketer of highly engineered, mission-critical products, we have become an industry leader across most of the regions and end markets in which we operate.

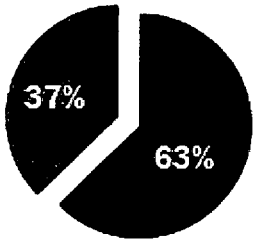
Gates' business is well-balanced and diversified across products, channels and geographies, as highlighted in the following charts showing breakdowns of our Fiscal 2019 net sales of $3,087.1 million.

BY PRODUCT CATEGORY



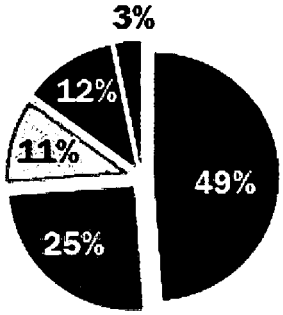
- Power Transmission
- Fluid Power

BY CHANNEL



- Replacement
- First-Fit

BY GEOGRAPHY



- North America
- Europe, Middle East & Africa
- Greater China
- East Asia & India
- South America

Business Model

Premier Recognized Brand

We offer our products and services under the widely-recognized Gates brand across our broad end markets and geographies. Since 1911, Gates has been recognized by distributors, installers, equipment manufacturers and end users as a premier name for power transmission and fluid power products, services and solutions. We are known for our premium quality, reliability, customer service, global footprint, leading technology and breadth of product offerings. In our replacement businesses, we experience strong pull-through demand from end users who specifically request Gates-branded products from our channel partners. We believe that we are the partner of choice when major customers are developing new platforms or upgrading existing ones.

Global Presence

Our commercial and manufacturing footprint is global. With over 120 locations around the world, we have positioned ourselves close to our customers. Our products are sold in more than 120 countries with approximately 62% of Fiscal 2019 net sales originating from outside of the U.S. and approximately 35% of our Fiscal 2019 net sales arising in emerging markets. Our broad geographic footprint provides diversification from regional cyclicality and positions us to capitalize on growth opportunities in every region.

Leading Market Positions

The breadth of our catalog, our market share in many product categories and our share of available content with key customers put us in what we believe is a leading market position in most channels, regions and end markets in which we operate. These leading market positions combined with our strong brand serve as platforms from which we can extend our presence in underpenetrated industries and generate sales growth in excess of our end markets.

Channel Breadth and Relationships

We believe that our regional commercial teams have established one of the broadest distribution networks in our industry, across a variety of end market-focused channels. Our distributors range from large corporations with numerous locations to small, individually-owned companies with a single location. Our channel partners provide global coverage and stock inventory of our products in close proximity to end users. They are able to generate demand for our products, as well as offer a point of customer service and product knowledge for end users in their local language. Many of them also have the capability to configure or assemble our products to meet diverse end-user requirements where a suitable off-the-shelf solution is not available. We have a demonstrated track record of building our presence in replacement channels in emerging markets such as Eastern Europe and South America. In regions such as Southeast Asia and China, we are continuing to leverage this experience to build out our channel presence utilizing unique programs. These extensive distribution networks give us the ability to access a broad base of end users and to reinforce the Gates brand.

Product and Catalog Coverage of Application-Critical Components

We believe our product breadth simplifies our customers' purchasing decisions and creates loyalty to us. We continuously invest in updating our product and catalog coverage to remain at the forefront of our industry and provide end users with convenient access to our comprehensive product portfolio.

Our highly engineered power transmission and fluid power products are often critical to the functioning of the equipment, process or system of which they are components, creating a dynamic where the cost of downtime or potential equipment damage is high relative to the cost of our products. Consequently, our products are typically replaced at regular intervals for preventative maintenance, resulting in high-margin, recurring revenue streams. Our catalog coverage, combined with the mission-critical nature of our products, makes us a valued partner to our customers.

History of Successful Innovation

We have a history of successful innovation, from commercializing the V-belt to pioneering the use of certain synthetic elastomers in serpentine belts. We believe that our materials science expertise forms the foundation of our innovation capabilities. Our products must be lightweight, withstand extreme temperature, pressure and load conditions, resist wear, maintain flexibility, avoid corrosion and fulfill other critical application requirements, all of which can only be met using the latest advancements in materials science technologies.

Operating Excellence Driving Margin Enhancement

The Gates Operating System philosophy is our overarching business system that drives a culture of continuous improvement and consistent application of best practices across all functions of the organization. Within the Gates Operating System, the operations-focused Gates Production System ("GPS") has been deployed throughout our manufacturing facilities to optimize our production efficiency. We have made significant improvements in factory productivity which have reduced production costs and freed up manufacturing capacity.

We have also implemented highly effective sourcing programs that leverage the latest e-auction tools and programs to insource selected components. Our Value Analysis/Value Engineering ("VA/VE") capability allows us to optimize select product designs for cost and performance to meet broader market requirements and improve profitability. The Gates Program Management System ("GPMS") has also been deployed to improve how we manage customer programs, new product development projects and advanced technology projects.

Strong Margins and Cash Flows from Operations

Our operating model is designed to generate strong profit margins and cash flows from operations and we have demonstrated a track record of margin improvement. Our margins are supported by our premier brand, superior product attributes, operational scale and efficiency and our relationships with our customers. We continue to identify cost-saving opportunities focused on improving productivity in our plants and expanding the scope of central procurement. Our capital expenditures have been strategically deployed to fund innovation and organic growth opportunities. We expect our continued focus on operational excellence and cost discipline to improve profit margins and working capital performance.

Our Growth Strategies

Our growth strategies are aimed at penetrating the significant markets addressable by our products by leveraging our iconic brand, product portfolio, customer relationships and other competitive strengths.

Further Penetrate Industrial Power Transmission Applications

We are targeting specific opportunities within our existing industrial end markets and product portfolio to further penetrate industrial power transmission applications, particularly those currently driven by competing technologies, including roller chain, direct drive systems, gearboxes and steel cable. Chain and steel cable currently drive most industrial drive systems. This presents a significant and attractive opportunity for us to grow by leveraging our brand, distribution channel presence and the fundamental value proposition of belt-drive systems. Industrial belt-drive systems often compare favorably to other types of industrial drive systems in terms of their quiet, low maintenance and efficient operation, as well as being relatively light-weight. Materials science-based advances in our product portfolio provide us with opportunities to displace competing drive systems in larger, high-torque applications that belt drives have historically been unable to address.

Extend Product Line in Fluid Power

Gates products compete in the premium segment of the market, where customers value quality, portfolio breadth and design capability. Customers in this segment use our products in numerous, demanding applications with a wide range of performance requirements. Through materials science-based innovation, VA/VE and process engineering we will continue to broaden our portfolio of fit-for-purpose fluid power products, optimizing their performance for different customer applications. This ongoing investment substantially increases the size of our addressable market.

Drive Technical Innovation in Our Markets

We continue to invest in advanced development programs and our core R&D capabilities to ensure that we remain at the forefront of innovation and product performance in our markets. We have established global centers of excellence that specialize in different functional areas of R&D with special emphasis on materials science and advanced modeling techniques. We utilize long-standing relationships with our blue-chip customers to design products that meet or exceed their anticipated future performance requirements. Our commitment to continue to invest in these relationships and our R&D capabilities strengthen our position to serve our core replacement markets with highly innovative and differentiated products to further increase the strength of our brand.

Continue to Grow and Invest in Emerging Markets

We have a long-standing presence in key emerging markets. We have successfully entered these markets by focusing on first-fit partnerships to establish our brand while building out our channels to serve the replacement base. Emerging markets continue to exhibit higher growth rates than mature markets due to a number of factors, such as increases in industrial production, mechanization, urbanization, infrastructure development and vehicle ownership. To capitalize on these trends, we continue to develop regionally appropriate product portfolios, expand our channel coverage and optimize regional manufacturing capacity.

Pursue Strategic Acquisitions

We intend to continue to strategically pursue and execute acquisitions to accelerate our growth strategies. Our markets are highly fragmented, providing numerous inorganic opportunities for us to expand our reach and capabilities. We maintain a disciplined approach to acquisitions and target strategic opportunities where we can realize synergies by leveraging our brand, channel presence, operating culture, global reach and other core competencies. We recently completed three acquisitions that were aligned with this philosophy: Techflow Flexibles in June 2017, Atlas Hydraulics in October 2017 and Rapro in April 2018.

Outlook

Following a challenging year for our end markets in Fiscal 2019, we entered 2020 expecting to see a continuation of that difficult environment in the first half of 2020, but with a return to growth in the second half. However, the impact of the global novel coronavirus ("COVID-19") pandemic has created greater uncertainty regarding our 2020 outlook and beyond. We have experienced a decline in core revenues of approximately 10% during the first three months of 2020 compared with the same period in the prior year, mainly driven by the impact on our business in China from COVID-19. Refer to "Significant events since year end" in the Directors' Report for further discussion.

Our recently completed manufacturing footprint investments and other productivity improvements in recent years have helped to position us to continue to make progress on our restructuring program, which is primarily intended to optimize our manufacturing and distribution footprint over the mid-term by removing structural fixed costs and, to a lesser degree, to streamline our selling, general and administrative ("SG&A") back-office functions. We anticipate that most of the costs associated with these actions will be incurred during 2020 and 2021.

II. Business Overview

Our History and Recent Developments

On October 1, 1911, Charles Gates, Sr. purchased the Colorado Tire and Leather Company, a manufacturer of steel-studded bands of leather that attached to tires to extend their mileage. In 1917, the Company commercialized the V-belt, which used rubber and woven threading instead of rope belts, which were more commonly used at that time. In 1963, we built the first of many international facilities in Erembodegem, Belgium, followed by Jacarei, Brazil, in 1973. In 1986, we acquired the Uniroyal Power Transmission Company, which included an interest in the Unitta joint venture that lay the groundwork for Gates' growth in the Asia-Pacific region. We have financial and operational control over the joint venture, and as such, consolidate it in our financial statements.

In 1996, Gates was acquired by a publicly held engineering firm based in the United Kingdom ("U.K."), Tomkins plc, which was itself acquired by Onex Partners and the Canada Pension Plan Investment Board, who proceeded to divest certain of Tomkins plc's businesses under a new parent entity, Pinafore Holdings B.V. Gates was acquired by funds affiliated with The Blackstone Group L.P. in July 2014 and in 2015 established a new executive leadership team with Ivo Jurek as Chief Executive Officer.

We have developed an active acquisition pipeline and the organizational capability to integrate acquired companies. In 2018, we acquired Rapro, based in Turkey, and in 2017 we closed two transactions, Techflow Flexibles in the U.K. and Atlas Hydraulics in North America. All three of our recent acquisitions have been focused on expanding our presence in industrial markets with new products, capabilities, capacity and geographic reach. In addition, we continue to invest organically in new production capacity. During Fiscal 2018, we opened two new facilities located in Poland and in Mexico, and we also expanded our Changzhou facility in China.

Our Solutions

We operate our business on a product-line basis through our two reporting segments - *Power Transmission* and *Fluid Power*. See note 5 of our audited consolidated financial statements included elsewhere in this report for additional information.

We sell our products under the Gates brand in all of the geographies and end markets we serve. Our power transmission segment includes elastomer drive belts and related components used to efficiently transfer motion in a broad range of applications. Power transmission products represented approximately 63% of our total net sales for Fiscal 2019. Our fluid power segment includes hoses, tubing and fittings designed to convey hydraulic fluid at high pressures in both mobile and stationary applications, and other high-pressure and fluid transfer hoses used to convey various fluids. Our fluid power products represented approximately 37% of our net sales for Fiscal 2019.

Our power transmission and fluid power products are often critical to the functioning of the equipment, process or system in which they are components, such that the cost of downtime or potential equipment damage is high relative to the cost of our products. Our products are therefore replaced not only as a result of normal wear and tear, but also preemptively as part of ongoing maintenance to the broader system.

We have a broad portfolio of both power transmission and fluid power products in the end markets we serve. We have a long history of focusing on customer engagement and training, driving product innovation and providing best-in-class order fulfilment services.

Power Transmission. Our Power Transmission solutions enable and control motion. They are used in applications in which belts, chains, cables, geared transmissions or direct drives transfer power from an engine or motor to another part or system. Belt-based power transmission drives typically consist of either a synchronous belt or an asynchronous belt (V-belt, CVT belt or Micro-V® belt) and related components (sprockets, pulleys, water pumps, tensioners or other accessories). Within our Power Transmission segment, we offer solutions across the following key application platforms:

- *Stationary drives:* fixed drive systems such as those used in a factory driving a machine or pump, or on a grain elevator driving the lift auger;
- *Mobile drives:* drives on a piece of mobile machinery such as a combine harvester or a road compactor, or in applications such as the brush head of a vacuum cleaner;
- *Engine systems:* synchronous drives and related components for cam shafts and auxiliary drives and asynchronous accessory drives for air conditioning ("A/C") compressors, power steering, alternators and starter/generator systems;

- *Personal mobility:* drives on motorcycles, scooters, bicycles, snowmobiles and other power sports vehicles that are used to transfer power between the power source and the drive wheel(s) or track; and
- *Vertical lift:* elevators, cargo lifts and other applications in which a belt, cable, chain or other lifting mechanism is used to carry load.

Customers choose power transmission solutions based on a number of factors, including application requirements such as load, speed, gear ratio, temperature, operating environment, ease of maintenance, noise, efficiency and reliability, as well as the support they receive from their suppliers, including application-specific engineering. Belt-based drive systems have many advantages over other alternatives, as they are typically clean, low-maintenance, lubrication-free, quiet with low-vibration, light-weight, compact, energy-efficient, durable and reliable. In applications where these advantages are valued, customers typically choose belts over other forms of power transmission solutions.

Our belts are classified by their general design into asynchronous and synchronous belts; in addition, we also manufacture metal drive products and assemble automotive replacement kits.

Asynchronous Belts. Asynchronous belts are our highest-volume products and are used in a broad range of applications. Asynchronous belts are made of proprietary rubber formulations, textiles and embedded cords for reinforcement. We were a pioneer in the design and manufacturing of V-belts, which draw their name from the shape of their profile. We also manufacture "ribbed" V-belts, which are belts with lengthwise V-shaped grooves, which we market under the Micro-V® name. This design results in a thinner belt for the same drive surface, making it more flexible and offering improved efficiency through lower friction losses. Belt starter/generator ("BSG") belts are used in start/stop accessory drive systems on automobiles and other engine applications used to improve fuel economy. The demanding BSG system functionality, including engine starting, torque boosting and energy recuperation, requires a high-performance belt construction. Continuously-variable transmission ("CVT") systems found in scooters, power sports vehicles and other applications use a specialized V-belt known as a CVT belt.

In industrial end markets, asynchronous belts have a wide variety of applications, including use in pump drives, manufacturing lines, HVAC systems, industrial engines, truck, bus and marine engines, forestry and mining equipment and many other applications. In automotive applications, our asynchronous belts perform functions that include transferring power from the crankshaft to accessory drive components such as the alternator, A/C compressor, power steering system, water pump and, in some vehicles, a BSG system.

During Fiscal 2018, Gates introduced a new Micro-V® platform for engine accessory drive systems. The combination of newly developed material compounds and product design reduces belt weight and results in lower bending stiffness. These improvements enable tighter pulley configurations and reduced drive bending losses as compared to existing belt technologies; lower losses result in reduced energy consumption, CO2 emissions and heat generation.

Synchronous Belts. Synchronous belts, also known as timing belts, are non-slipping mechanical drive belts. They have teeth molded onto the inner surface and they run over matching toothed pulleys or sprockets. Synchronous belts experience no slippage and are often used to transfer motion for indexing or timing purposes, as well as for linear positioning and positive drive conveying. They are typically used instead of chains or gears and we believe have a number of advantages over these alternatives, including less noise, no need for lubrication, improved durability and performance and a more compact design. Our synchronous belts are made of a flexible polymer over fabric reinforcement and are often built with Kevlar, aramid and carbon fibers.

Examples of industrial applications include use in HVAC systems, food processing and bottling plants, mining and agricultural equipment, automatic doors and robotics. In automotive applications, our synchronous belts are used to synchronize the rotation of the engine crankshaft with the camshaft due to engine combustion in a valve train system, as well as in electric power steering and parking brake systems which are present in gasoline-powered, hybrid and electric vehicles.

Metal Drive Components. We manufacture and sell the tensioners and idlers used in belt drive systems. These products are designed and engineered to work efficiently with our belts. Tensioners are devices that maintain a constant tension in the belt drive system, thereby ensuring proper function and preventing loss of power or system failure. Tensioners typically employ a spring that places pressure along the belt for an intricate hold, while still allowing enough movement for vibration and to prevent stretching. Idlers, which sometimes also perform as tensioners, are used to take up extra belt length.

Kits. Our kits for the automotive replacement market include all of the parts needed by an automotive service shop to perform a replacement of one of our products. Kits are created for specific makes and models and typically include belts, tensioners and idlers, and will sometimes also include water pumps as they are often replaced when a timing belt is replaced. Our kits are convenient for service technicians as they eliminate the need for more complicated product sourcing. On a comparable quantity basis, kits typically sell at a premium to a loose belt and single tensioner.

Our power transmission products are used in a broad range of applications in end markets including construction, agriculture, transportation, automotive, energy, general industrial and consumer products. The majority of our Fiscal 2019 net sales came from the replacement markets, which provide high-margin, recurring revenue streams and are driven by attractive market trends. The bulk of our power transmission replacement business resides in developed regions, in which a large, aging installed base of equipment follows a natural maintenance cycle and is served by well-developed distribution channels. For example, a combine harvester in North America has over 25 high-performance belts that are typically replaced at regular intervals, depending on wear and tear, with end users having access to replacement parts through an established channel. Similarly, in the North American automotive replacement market, maintenance intervals are well defined and miles driven per vehicle are increasing, leading to more wear and tear on vehicles. A smaller portion of our power transmission replacement business is generated in emerging markets, which generally have a smaller base of installed equipment and relatively immature distribution channels. As they continue to develop, these replacement markets represent a significant long-term opportunity for growth.

In addition to our power transmission replacement business, we also serve a wide variety of blue-chip first-fit customers across all of our end markets. The majority of our automotive first-fit revenues in power transmission tend to come from emerging markets. These markets generally are higher-growth and result in higher-margin business than our developed regions. Our first-fit presence in these markets serves to further strengthen our brand, strongly positioning us to serve the growing base of installed equipment as the nascent replacement channels continue to develop.

Fluid Power. Our Fluid Power solutions are used in applications in which hoses and rigid tubing assemblies either transfer power hydraulically or convey fluids, gases or granular materials from one location to another. Within our Fluid Power segment, we offer solutions across the following key application platforms:

- *Stationary hydraulics:* applications within stationary machinery, such as an injection molding machine or a manufacturing press;
- *Mobile hydraulics:* applications used to power various implements in mobile equipment used in construction, agriculture, mining and other heavy industries;
- *Engine systems:* applications for engine systems such as coolant, fuel, A/C, turbocharger, air intake and selective catalytic reduction for diesel emissions; and
- *Other industrial:* applications in which hoses are used to convey fluids, gases or granular material across several industries such as oil and gas drilling and refining, food and beverage and other process industries.

Customers choose fluid power solutions based on a number of factors including application-specific product performance parameters such as pressure and temperature ratings, corrosion and leak resistance, weight, flexibility, abrasion resistance and cleanliness, as well as compliance with standards and product availability. Attributes associated with the supplier, including brand, global footprint and reputation for reliability and quality, are also considered.

Hydraulics. Our hydraulics product line is comprised of hoses, tubing and fittings, as well as assemblies consisting of these products. Our hydraulic products are key components of hydraulic systems in both stationary and mobile equipment applications. We provide a full selection of hose sizes and construction types for use in a wide variety of working requirements and conditions. Hydraulic hoses are made of synthetic rubber and reinforced with steel wire or a textile-based yarn, and typically operate at very high pressures, often in extreme environmental conditions. Hoses are designed for use in specific mechanical applications and require high levels of quality and durability.

Our hydraulic fittings and tubing are engineered to match the product performance of our hydraulic hoses. The high-pressure nature of hydraulic systems requires these products have high levels of performance similar to those found in our hydraulic hoses. The ultimate performance of a hydraulic assembly, in which our products function as part of a hydraulic circuit, depends not only on how well the components are made, but also on how well they complement each other. In order to ensure compatibility with numerous applications, our hydraulic fittings are manufactured in a wide assortment of sizes, crimping systems and materials, and are protected by a range of patents. Our hydraulic products and assemblies are used in construction, agricultural and forestry equipment, as well as in food and other processing lines and stationary machinery.

During Fiscal 2018, Gates introduced a new hydraulic hose family that is lighter weight and more flexible. Made with high-performance reinforcement and a robust, abrasion-resistant cover, the MXT line of hydraulic hose is a universally applicable, high-performance product that meets the needs of diversified applications. During Fiscal 2019, we launched the MXG line of hydraulic hose, a more flexible, lighter-weight solution with increased durability and temperature performance, which is designed to replace conventional spiral hoses typically used in the most demanding applications.

Engine Hose. Our engine hose products perform a variety of conveyance functions in engine applications in gasoline-powered, hybrid and electric vehicles. Engine system applications for which Gates provides solutions include coolant (radiator, heater), air system (turbocharger, intake, vacuum, crankcase ventilation), fuel, oil (transmission oil cooling, power steering) and emissions/Diesel Exhaust Filtration ("DEF") systems.

Industrial Hose. Our industrial hoses are capable of transferring a wide range of substances - chemicals, food and beverages, petroleum, fuels, bulk materials, water, steam and air - to meet the requirements of diverse applications, including manufacturing, mining, oil and gas drilling, marine, agriculture, industrial cleaning and construction. Our application engineering teams work with customers to assist them in selecting the appropriate hose solution to safely meet their operational needs. We leverage our materials science expertise to enable hose performance at varying pressures and levels of resistance to chemicals, oil, abrasion, ozone, flame and both hot and cold temperatures. For performance in extreme environments, many of our industrial hoses feature both crush-resistant and flexible designs. Gates industrial hoses are highly engineered to meet or exceed a multitude of industry standards and certifications, and are offered in a range of diameters, lengths and colors to allow customers to differentiate the hoses in applications. We also offer a wide range of couplings to provide complete assembly solutions to our customers.

Our fluid power products are used in numerous applications, including construction, agriculture, transportation, automotive, energy and general industrial. The largest portion of our Fiscal 2019 fluid power revenue came from replacement markets. Within these replacement markets, the majority of our revenue came from industrial applications. Approximately 15% of our Fiscal 2019 fluid power revenue came from products sold into the automotive end market, almost all of which was served through the higher-margin replacement channel.

Our Diverse Markets

We participate in many sectors of the industrial and consumer markets. Our products play essential roles in a diverse range of applications across a wide variety of end markets ranging from harsh and hazardous industries such as agriculture, construction, manufacturing and energy, to everyday consumer applications such as printers, power washers, automatic doors and vacuum cleaners. Virtually every form of transportation, ranging from trucks, buses and automobiles to personal mobility vehicles such as motorcycles, bicycles and snowmobiles uses our products.

Our net sales have historically been, and remain, highly correlated with industrial activity and utilization, and not with any single end market given the diversification of our business and high exposure to replacement markets. Key indicators include industrial production, industrial sales and manufacturer shipments.

Our products are sold in over 120 countries across our four commercial regions: (1) the Americas; (2) Europe, Middle East & Africa ("EMEA"); (3) Greater China; and (4) East Asia & India. We have a long-standing presence in each of these regions.

Our commercial capabilities are complemented by our global manufacturing footprint, which frequently allows us to manufacture products in close proximity to our customers. We have power transmission and fluid power operations in each commercial region and typically manufacture products for both first-fit customers and replacement customers in the same factory, which provides improved factory loading and demand leveling, as well as optimization of capital expenditures.

Our Channels

We sell our power transmission and fluid power products both as replacement components and as specified components on original equipment to customers worldwide. During the year ended December 28, 2019, approximately 63% of our net sales were generated from replacement markets and 37% from first-fit markets globally. Our mix of replacement channel sales to first-fit sales varies by region based on our market strategy and the maturity of the equipment fleet and replacement channel. For example, in emerging markets such as China, our business is characterized by a higher first-fit presence, given the relatively underdeveloped replacement channels and lower average age of cars. We believe that ultimately our first-fit presence in these emerging markets will allow us to better develop the replacement channels as they mature over time. By contrast, in North America and EMEA, where there are long-established replacement markets, approximately 68% and 71% of our Fiscal 2019 net sales, respectively, were derived from these higher-margin replacement channels. In the vast majority of the applications we service, we do not need to have been the first-fit provider to service these applications in the replacement markets.

Replacement. The majority of our sales are generated from customers in replacement channels, who primarily serve a large base of installed equipment that follows a natural maintenance cycle. Our ability to help replacement channel partners maximize revenue is an important part of our value proposition. These customers miss sales opportunities if a required product cannot be obtained quickly, either from a catalog or on-hand inventory.

In addition to our products, we offer digital tools and other content to distributors, installers and end users of equipment containing our products. We also assist with customer training on product installation and early identification of wear-and-tear on components, which helps drive sales for our channel customers while mitigating the risk of equipment failure for end users.

First-Fit. We work closely with our customers by providing application engineering expertise to assist them in selecting the right products for their applications. In engine systems, we provide application engineering for cam drive and accessory drive applications, and complete all design and manufacturing of the system components in-house. Close interactions between our R&D organization and customer technical teams provide input into our innovation and product development processes. We selectively participate in first-fit projects, focusing on opportunities where we are able to differentiate with technology and innovative solutions.

Customers

We maintain long-standing relationships with many customers, who range from local distributors with one location to large, global manufacturers of equipment. No single customer accounted for more than 10% of our Fiscal 2019 net sales.

Sales and Marketing and Distribution Organization

Our sales and distribution operations are structured to serve our customers efficiently across the globe. We have field representatives who possess local knowledge of product and application requirements, allowing us to meet our customers' product availability requirements with short lead times. Our global sales and service support team helps reinforce customer and distributor relationships by focusing on end markets and customers.

Manufacturing

We have a global, "in region, for region" manufacturing footprint and regional service model that enable us to operate efficiently and effectively in proximity to our customers. We operate 63 manufacturing facilities and service centers as well as several major technical centers giving us a presence in 29 countries throughout the world. Our in-country deployment of manufacturing and technical resources enables us to meet customer needs rapidly and satisfy regional variations in product preference, while our scale allows us to service global customers on a world-wide basis.

Competition

We operate in competitive markets and industries that are also very fragmented. We offer our products and solutions across numerous and varied end markets and geographies through over 120 locations in 29 countries. Consequently, we have many competitors across our various markets and product offerings. These competitors and the degree of competition vary by product line, geographic scope, end market and channel. Although each of our markets and product offerings has many competitors, no single competitor competes with us with respect to all of our products, solutions, channels and end markets. Our global presence makes it difficult for smaller regional and low-cost country manufacturers to penetrate our markets. We differentiate ourselves on the basis of product performance and quality, breadth of portfolio, customer support and training, service level, fill rates and product availability.

Research, Development and Intellectual Property

Applied R&D is important to our businesses and integral to our leading market positions. We have engineering teams in the U.S., Canada, the U.K., Germany, Spain, Poland, Turkey, Japan, China, Brazil, India, Mexico, Korea and Thailand that focus on the introduction of new and improved products with a particular emphasis on energy efficiency and safety, the application of technology to reduce unit and operating costs and improving services to our customers.

As of December 28, 2019, we held more than 2,500 patents and trademarks in various jurisdictions. While no individual patent or group of patents, taken alone, is considered critical to our business, collectively our patents and trademarks provide meaningful protection for our products and technical innovations.

Materials and Suppliers

We use a wide variety of materials, resulting in a highly diversified mix of inputs, which are sourced from a variety of suppliers around the world. Generally, we seek to obtain materials in the regions where our products are manufactured to minimize transportation and other costs. As of December 28, 2019, we had not experienced any significant shortages of raw materials and normally do not carry inventories of raw materials in excess of those required to meet our production schedules.

We continually seek to manage commodity and raw material costs using various strategies, including working with our suppliers to mitigate costs, exploring material substitution opportunities, combining purchase requirements across regions and changing suppliers when appropriate.

Environmental

Our operations, products and properties are subject to extensive U.S. and foreign federal, state, local, and provincial laws and regulations relating to environmental, health and safety ("EHS") protection, including laws and regulations governing air emissions, wastewater discharges, waste management and disposal, substances in products, and workplace health and safety, as well as the investigation and clean-up of contaminated sites. Under certain environmental laws, the obligation to investigate and remediate contamination at a facility may be imposed on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. We are currently performing environmental investigations and/or remediation at a number of former and current facilities in the U.S. and Canada and are incurring costs in relation to a number of offsite waste disposal sites.

Employees

Details of our employees can be found under section X of the Strategic Report.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC's website at http://www.sec.gov. Our SEC filings are also available on our website, free of charge, at http://investors.gates.com as soon as reasonably practicable after they are filed with or furnished to the SEC.

We maintain an internet site at http://www.gates.com. Our website and the information contained on or connected to that site are not incorporated into this report.

III. Principal Risks and Uncertainties

Our Board exercises direct oversight of strategic risks to the Company. The Audit Committee reviews guidelines and policies governing the process by which management assesses and manages the Company's exposure to risk, including the Company's major financial risk exposures and the steps management takes to monitor and control such exposures. The Compensation Committee oversees risks relating to the Company's compensation policies and practices. Each committee charged with risk oversight reports to the Board on those matters.

Additionally, with respect to cybersecurity risk oversight, our Board receives updates from our information technology team to assess the primary cybersecurity risks facing the Company and the measures the Company is taking to mitigate such risks. In addition to such updates, our Board and our Audit Committee receive updates from management as to changes to the Company's cybersecurity risk profile or significant newly identified risks.

The risk factors noted in this section and other factors noted throughout this annual report, describe the principal risks and uncertainties that could cause our actual results to differ materially from those contained in any forward-looking statement and should be considered carefully in evaluating our company and our business. For reference to the full list of the Company's risks, see "Risk Factors," beginning on page 11 of the Company's U.S. Annual Report on Form 10-K for the year ended December 28, 2019.

Conditions in the global and regional economy and the major end markets we serve may materially and adversely affect the business and results of operations of our businesses should they deteriorate.

Our business and operating results have been, and will continue to be, affected by worldwide and regional economic conditions, including conditions in the end markets we serve. The level of demand for our products depends, in part, on the general economic conditions that exist in our served end markets. A substantial portion of our revenues are derived from customers in cyclical industries that typically are adversely affected by downward economic cycles. For example, in Fiscal 2019, a downturn in the short-cycle end markets, including sharp declines in agriculture and general industrial end markets, significantly impacted our business. Further, our historical results have been, and remain, highly correlated to global industrial activity and utilization and decreases in such activity or utilization may continue to impact our business, financial condition and results of operations.

During such downturns, our customers may experience deterioration of their businesses, cash flow shortages or difficulty obtaining financing. As a result, the demand for our products may be significantly reduced and existing or potential customers may delay or cancel plans to purchase our products and may not be able to fulfill their obligations to us in a timely fashion. Further, our vendors may experience similar conditions, which may impact their ability to fulfill their obligations to us.

We cannot predict the timing, strength or duration of any economic recovery, including in the short-cycle end markets, or downturn globally or within our end markets, If conditions in the global economy or in the regions and major end markets that we serve deteriorate, demand for our products may decline and our results of operations, financial position and cash flows could be materially adversely affected.

The current COVID-19 pandemic has caused severe disruption in the global economy and had and is expected to continue to have an adverse impact on our business, operating results, cash flows and/or financial condition, and that impact may be material.

In late December 2019, a novel coronavirus disease was first reported and over the next few months the number of cases and affected countries increased rapidly. In March 2020, the World Health Organization designated COVID-19 as a pandemic and numerous countries have declared national emergencies with respect to COVID-19. The global impact of the pandemic has been rapidly evolving, and many countries have reacted by instituting quarantines and restrictions on travel, and limiting operations of non-essential businesses. Such actions are creating disruption in global supply chains, increasing rates of unemployment and adversely impacting many industries and may trigger a period of global economic slowdown. The extent to which this may impact our future results of operations and overall financial performance remains uncertain.

The scale and scope of the COVID-19 pandemic may heighten the potential adverse effects on our business, operating results, cash flows and/or financial condition described in the risk factors contained in our annual report or result in new risks, due to the impact of:

- unfavorable economic conditions on our customers. We are unable to predict the degree to which the pandemic will impact our customers' businesses, but it has resulted in and could continue to result in customers reducing orders, delaying projects, deferring capital equipment purchases, making late payments or being unable to make payments. Further, travel restrictions and social distancing has reduced or eliminated, and may continue to reduce or eliminate, in-person sales meetings, attendance at trade shows and industry events. As a result, our sales and selling activities have been and may continue to be adversely impacted;
- a significant disruption in service within our operations, among our key suppliers and supply chains, or other third parties. We have experienced instances of suppliers temporarily closing operations, delaying order fulfillment or limiting production due to the pandemic. Continued disruptions, shipping delays or insolvency of key vendors in our supply chain could make it difficult or more costly for us to obtain the raw materials or other inputs we need for our operations;
- facility closures or disruptions. We manufacture and provide essential products to a variety of customers around the globe and intend to continue providing our products to the extent possible. While most of our facilities are still operating, we have experienced temporary disruptions at certain facilities and may continue to experience these due to regulatory shut-downs or other quarantine measures or illness, which could place constraints on our ability to produce our products and meet customer demand;
- challenges in product delivery. We have faced, and may continue to face, increased delays in the delivery of our product to our customers as a result of shipping delays, port closures and congestion, increased border controls and other transportation and shipping constraints, which may increase our costs of doing business and affect our ability to timely meet customer demand;
- compliance with substantial government regulation, including new laws or regulations or changes in existing laws or regulations, which laws or regulations may vary significantly by jurisdiction;
- fluctuations in equity market prices, interest rates and credit spreads limiting our ability to raise or deploy capital and affecting our overall liquidity. The Company continues to generate cash from operations and believes it has adequate liquidity and capital resources at this time; however, unanticipated consequences of the pandemic and resulting economic uncertainty could adversely affect our ability to raise additional funds when and as needed or lead to higher costs of borrowing;
- cyberattacks or other privacy or data security incidents. The Company has experienced and expects to continue to experience an increase in phishing and hacking attempts and other fraudulent schemes due to the pandemic. Such additional cyberattacks increase the Company's risk of security breaches, and mitigation efforts require an increased investment of time and resources;
- changes and challenges to our workforce, including decreased worker productivity due to remote working arrangements, increased medical, emergency or other leave, redirection of management's focus on managing and mitigating the impacts of the pandemic, the ability to meet staffing needs in our various facilities and delays in implementation of our organizational efficiency and business continuity plans; and
- delays in responsiveness by governments and other third parties in other matters arising in the ordinary course of business due to their prioritization of matters relating to COVID-19.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the development of vaccines or other medical advances, the extent and effectiveness of containment actions, the impact of labor market interruptions, the impact of government interventions, the potential of a longer term economic slowdown or recession and the impact of these and other factors on our employees, customers, suppliers and partners. Such impact on our business, operating results, cash flows and/or financial condition could be material and could result in asset impairment charges, including impairments of property, plant and equipment, goodwill or other intangible assets.

We have described how we are responding to the impacts of the COVID-19 pandemic in "Significant events since year end" in the Directors' Report.

We are subject to economic, political and other risks associated with international operations, and this could adversely affect our business and our strategy to capitalize on our global reach.

One of our key strategies is to capitalize on our global commercial reach, and a substantial portion of our operations are conducted and located outside the U.S. For Fiscal 2019, approximately 62% of our net sales originated from outside of the U.S. We have manufacturing, sales and service facilities spanning five continents and sell to customers in over 120 countries. Moreover, a significant amount of our manufacturing functions and sources of our raw materials and components are from emerging markets such as China, India and Eastern Europe. Accordingly, our business and results of operations, as well as the business and results of operations of our vendors and customers, are subject to risks associated with doing business internationally, including:

- imposition of new or additional tariffs or other trade restrictions or embargoes, as well as import and export licensing and control requirements;
- political, social or economic instability, civil unrest, natural disasters, public health crises, war or terrorism that may disrupt economic activities in affected countries;
- exchange rate fluctuations, currency restructurings and hyperinflation or deflation in the countries in which we operate;
- imposition of currency restrictions and limitations on repatriation of earnings;
- the complexities of operating within multiple tax jurisdictions;
- partial or total expropriation by local, state or national governments;
- uncertainties as to local laws regarding, and enforcement of, contract and intellectual property rights;
- the ability to comply with or effect of complying with complex and changing laws, regulations and policies of foreign governments, including differing and, in some cases, more stringent labor and environmental regulations;
- differing local product preferences and product requirements; and
- difficulties involved in staffing and managing widespread operations, including challenges in administering and enforcing corporate policies, which may be different than the normal business practices of local cultures.

The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable. Certain regions, including Latin America, Asia, the Middle East and Africa, are generally more economically and politically volatile and as a result, our operations in these regions could be subject to more significant fluctuations in sales and operating income. Because a significant percentage of our operating income in recent years has come from these regions, adverse fluctuations in the operating results in these regions could have a disproportionate impact on our results of operations in future periods.

The U.S. administration has publicly supported certain potential tax and trade proposals, modifications to international trade policy and other changes which have and may continue to affect U.S. trade relations with other countries, particularly China. Our industry has been impacted by the ongoing uncertainty surrounding tariffs and international trade relations generally, and it is difficult for us to predict the impact future trade measures may have on our business and results of operations in the future.

In addition, economic and political uncertainty arose out of the June 23, 2016 vote in the U.K. that resulted in the U.K.'s exit from the European Union (the "E.U."), commonly referred to as "Brexit," on January 31, 2020. While the U.K. will continue to follow all of the E.U.'s rules and will maintain its current trading relationship with the E.U. during an 11-month transition period, the ongoing negotiations between the U.K. and the E.U. as to the terms of the U.K.'s trade agreements and other relationships with the E.U. following the transition period have created political and economic uncertainty, with concern about increased regulatory and legal complexities that could disrupt our operations and increase our cost of doing business.

Additionally, concerns persist regarding the debt burden of certain European countries and the ability of these countries to meet future financial obligations, as well as concerns regarding the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances of individual euro-area countries. If a country within the euro area were to default on its debt or withdraw from the euro currency, or if the euro were to be dissolved entirely, the impact on markets around the world, and on our global business, could be immediate and material. Such a development could cause financial and capital markets within and outside Europe to constrict, thereby negatively impacting our ability to finance our business, and also could cause a substantial reduction in consumer confidence and spending that could negatively impact sales.

While we have adopted certain operational and financial measures to reduce the risks associated with doing business internationally, any one of the risks listed above may impact us or require us to modify our business practices beyond what we can anticipate and could have a material adverse effect on our financial condition and results of operations.

We are subject to anti-corruption laws in various jurisdictions, as well as other laws governing our international operations. If we fail to comply with these laws we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could materially adversely affect our business, financial condition and results of operations.

Our operations are subject to one or more anti-corruption laws in various jurisdictions, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"), the U.K. Bribery Act of 2010 and other anti-corruption laws. The FCPA and these other laws generally prohibit employees and intermediaries from bribing or making other prohibited payments to foreign officials or other persons to obtain or retain business or gain some other business advantage. We operate in a number of jurisdictions that pose a high risk of potential FCPA or other anti-corruption violations, and we participate in joint ventures and relationships with third parties whose actions could potentially subject us to liability under the FCPA or other anti-corruption laws. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

We are also subject to other laws and regulations governing our operations, including regulations administered by the U.S. Department of Commerce's Bureau of Industry and Security, the U.S. Department of Treasury's Office of Foreign Assets Control, and various non-U.S. government entities, including applicable export control regulations, economic sanctions on countries and persons, customs requirements, currency exchange regulations, and transfer pricing regulations (collectively, "Trade Control laws").

We are also subject to U.K. corporate criminal offences for failure to prevent the facilitation of tax evasion pursuant to the Criminal Finances Act 2017 ("FTP offences"). The FTP offences impose criminal liability on a company where it has failed to prevent the criminal facilitation of tax evasion by a person associated with the company.

We have instituted policies, procedures and ongoing training of certain employees with regard to business ethics, designed to ensure that we and our employees comply with the FCPA, other anticorruption laws, Trade Control laws and the Criminal Finances Act 2017. However, there is no assurance that our efforts have been and will be completely effective in ensuring our compliance with all applicable anti-corruption laws, including the FCPA, or other legal requirements. If we are not in compliance with the FCPA, other anti-corruption laws, Trade Control laws or the Criminal Finances Act 2017, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses, which could have a material adverse impact on our business, financial condition, results of operations and liquidity. Likewise, any investigation of any potential violations of the FCPA, other anti-corruption laws or the Criminal Finances Act 2017 by U.S. or foreign authorities could also have a material adverse impact on our reputation, business, financial condition and results of operations.

We may not be able to accurately forecast demand or meet significant increases in demand for our products.

Certain of our businesses operate with short lead times and we order raw materials and supplies and plan production based on discussions with our customers and internal forecasts of demand. If we are unable to accurately forecast demand for our products, in terms of both volume and specific products, or react appropriately to abrupt changes in demand, we may experience delayed product shipments and customer dissatisfaction. If demand increases significantly from current levels, both we and our suppliers may have difficulty meeting such demand, particularly if such demand increases occur rapidly. Additionally, we may carry excess inventory if demand for our products decreases below projected levels. Failure to accurately forecast demand or meet significant increases in demand could have a material adverse impact on our business, financial condition and operating results.

If we are unable to obtain raw materials at favorable prices in sufficient quantities, or at the time we require them, our operating margins and results of operations may be materially adversely affected.

We purchase our energy, steel, aluminum, rubber and rubber-based materials, chemicals, polymers and other key manufacturing inputs from outside sources. We do not traditionally have long-term pricing contracts with raw material suppliers. The costs of these raw materials have been volatile historically and are influenced by factors that are outside our control. In recent years, the prices for energy, metal alloys, polymers and certain other of our raw materials have fluctuated significantly. While we strive to avoid this risk by using price escalation mechanisms with respect to our raw materials in certain of our customer contracts and we also seek to offset our increased costs with gains achieved through operational efficiencies, if we are unable to pass increases in the costs of our raw materials on to our customers, we experience a lag in our ability to pass increases to our customers, or operational efficiencies are not achieved, our operating margins and results of operations may be materially adversely affected.

Additionally, our businesses compete globally for key production inputs. The availability of qualified suppliers and of key inputs may be disrupted by market disturbances or any number of geopolitical factors, including political unrest and significant weather events. Such disruptions may require additional capital or operating expenditure by us or force reductions in our production volumes. In the event of an industry-wide general shortage of certain raw materials or key inputs, or a shortage or discontinuation of certain raw materials or key inputs from one or more of our suppliers, we may not be able to arrange for alternative sources of certain raw materials or key inputs. Any such shortage may materially adversely affect our competitive position versus companies that are able to better or more cheaply source such raw materials or key inputs.

Adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key channel partners could adversely affect our business, financial condition and results of operations.

Certain of our businesses sell a significant amount of their products to key channel partners, including distributors, which have valuable relationships with end users. Some of these channel partners may also sell our competitors' products, and if they favor competing products for any reason they may fail to market our products effectively. Adverse changes in our relationships with these channel partners, or adverse developments in their financial condition, performance or purchasing patterns, could adversely affect our business, financial condition and results of operations. The levels of inventory maintained by our distributors and other channel partners, and changes in those levels, can also significantly impact our results of operations in any given period, such as the destocking we experienced in both the automotive and industrial replacement channels during Fiscal 2019. In addition, the consolidation of channel partners and customers in certain of our end markets could adversely impact our profitability.

If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, it may have a material adverse effect on our business, financial condition and results of operations.

Our facilities, supply chains, distribution systems and information technology systems are subject to catastrophic loss due to fire, flood, earthquake, hurricane, public health crises such as the COVID-19 pandemic, or other natural or man-made disasters. If any of these facilities, supply chains or systems were to experience a catastrophic loss or ongoing closure or disruption, it could negatively impact our operations, delay production and shipments, result in defective products or services, damage customer relationships and our reputation and result in legal exposure and large repair or replacement expenses. The third-party insurance coverage that we maintain will vary from time to time in both type and amount depending on cost, availability and our decisions regarding risk retention, and may be unavailable or insufficient to protect us against losses.

We are dependent on the continued operation of our manufacturing facilities and we may need to make investments in new or existing facilities or consolidate facilities to align with our strategies.

While we are not heavily dependent on any single manufacturing facility, major disruptions at a number of our manufacturing facilities, due to labor unrest, adverse weather, natural disasters, terrorist attacks, significant mechanical failure of our facilities, or other catastrophic event, could result in significant interruption of our business and a potential loss of customers and sales or could significantly increase our operating costs.

In addition, we have in the past and may in the future need to make investments in new or existing manufacturing facilities or to consolidate manufacturing facilities to adapt our production capacity to changing market conditions and to align with our growth and efficiency strategies. The costs of such investments or consolidation efforts may be significant and we may not realize the expected benefits on our anticipated timeframe or at all, which may have a material adverse effect on our business, financial condition and results of operations.

Failure to develop, obtain, enforce and protect intellectual property rights could adversely affect our business.

Our success depends on our ability to develop technologies and inventions used in our products and to brand such products to obtain intellectual property rights in such technologies and inventions, and to protect and enforce such intellectual property rights. In this regard, we rely on U.S. and foreign trademark, patent, copyright, and trade secret laws, as well as license agreements, nondisclosure agreements, and confidentiality and other contractual provisions. Nevertheless, the technologies and inventions developed by our engineers in the future may not prove to be as valuable as those of competitors, or competitors may develop similar or identical technologies and inventions independently of us and before we do.

We may not be able to obtain patents or other intellectual property rights in our new technologies and inventions or, if we do, the scope of such rights may not be sufficiently broad to afford us any significant commercial advantage over our competitors. Owners of patents or other intellectual property rights that we need to conduct our business as it evolves may be unwilling to license such intellectual property rights to us on terms we consider reasonable. Competitors and other third parties may challenge the ownership, validity, and/or enforceability of our patents or other intellectual property rights. Further, we expect pirates to continue to counterfeit certain of our products using our trademarks, which has led to, and will likely continue to cause loss of sales. It is difficult to police such counterfeiting, particularly on a worldwide basis, and the efforts we take to stop such counterfeiting may not be effective.

Our efforts to enforce our intellectual property rights against infringers may not prove successful and will likely be time consuming and expensive and may divert management's attention from the day-to-day operation of our business. Adequate remedies may not be available in the event of an infringement or unauthorized use or disclosure of our trade secrets and manufacturing expertise. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our business, financial condition, results of operations and cash flows. Further, successful assertion of our intellectual property rights depends on the judicial strength and willingness of the issuing jurisdictions to enact and enforce sufficient intellectual property laws. Creation and enforcement of intellectual property rights is a relatively recent development in much of the world, and so some time may be necessary to realize reliable intellectual property systems across all markets and jurisdictions, if this occurs at all.

The loss or financial instability of any significant customer or customers could adversely affect our business, financial condition, results of operations or cash flows.

A substantial part of our business is concentrated with a few customers, and we have certain customers that are significant to our business. During Fiscal 2019, our top ten customers accounted for approximately 23% of our consolidated net sales and accounted for approximately 36% of our trade accounts receivable balance as of December 28, 2019, and our largest customer accounted for approximately 9% and 19% of our Fiscal 2019 consolidated net sales and trade accounts receivable balance as of December 28, 2019, respectively. The loss of one or more of these customers or other major customers, or a deterioration in our relationship with any of them or their failure to pay amounts due to us could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our contracted backlog is comprised of future orders for our products from a broad number of customers. Defaults by any of the customers that have placed significant orders with us could have a significant adverse effect on our net sales, profitability and cash flow. Our customers may in the future default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons deriving from the general economic environment or circumstances affecting those customers in particular. If a customer defaults on its obligations to us, it could have a material adverse effect on our backlog, business, financial condition, results of operations or cash flows.

We may be subject to recalls, product liability claims or may incur costs related to product warranties that may materially and adversely affect our business.

Meeting or exceeding many government-mandated safety standards is costly and requires manufacturers to remedy defects related to product safety through recall campaigns if the products do not comply with safety, health or environmental standards. If we, customers or government regulators determine that a product is defective or does not comply with such standards prior to the start of production, the launch of a product could be delayed until such defect is remedied. The costs associated with any protracted delay of a product launch or a recall campaign to remedy defects in products that have been sold could be substantial.

We face an inherent risk of product liability claims if product failure results in any claim for injury or loss. Supplier consolidation and the increase in low-cost country sourcing may increase the likelihood of receiving defective materials, thereby increasing the risk of product failure and resulting liability claims. Litigation is inherently unpredictable and these claims, regardless of their outcome, may be costly, divert management attention and adversely affect our reputation. Although we have liability insurance, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost or will be adequate. In addition, even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and us.

From time to time, we receive product warranty claims from our customers, pursuant to which we may be required to bear costs of repair or replacement of certain of our products. Vehicle manufacturers are increasingly requiring their outside suppliers to participate in the warranty of their products and to be responsible for the operation of these component products in new vehicles sold to consumers. Warranty claims may range from individual customer claims to full recalls of all products in the field. It cannot be assured that costs associated with providing product warranties will not be material.

Our substantial leverage could adversely affect our financial condition, our ability to raise additional capital to fund our operations, our ability to operate our business, our ability to react to changes in the economy or our industry or our ability to pay our debts, and could divert our cash flow from operations to debt payments.

We are highly leveraged. As of December 28, 2019, the total principal amount of our debt was $2,985.0 million. Subject to the limits contained in the credit agreements that govern our senior secured credit facilities, the indenture that governs our notes and the applicable agreements governing our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could increase. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to our debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

We are a holding company, and our consolidated assets are owned by, and our business is conducted through, our subsidiaries. Earnings from these subsidiaries are our primary source of funds for debt payments and operating expenses. If our subsidiaries are restricted from making distributions, our ability to meet our debt service obligations or otherwise fund our operations may be impaired. Moreover, there may be restrictions on payments by subsidiaries to their parent companies under applicable laws, including laws that require companies to maintain minimum amounts of capital and to make payments to shareholders only from profits. As a result, although a subsidiary of ours may have cash, we may not be able to obtain that cash to satisfy our obligation to service our outstanding debt or fund our operations.

Cyber security vulnerabilities, threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products, solutions, services and data.

Increased global cyber security vulnerabilities, threats, computer viruses and more sophisticated and targeted cyber related attacks, as well as cyber security failures resulting from human error and technological errors, pose a risk to our systems, products and data as well as potentially to our employees', customers', partners', suppliers' and third-party service providers' data. An attack could result in security breaches, theft, lost or corrupted data, misappropriation of sensitive, confidential or personal data or information, loss of trade secrets and commercially valuable information, production downtimes and operational disruptions. We attempt to mitigate

these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, but we remain potentially vulnerable to additional known or unknown threats. There is no assurance the financial or operational impact from such threats will not be material.

IV. Business Trends

Business Trends

Our net sales have historically been, and remain, highly correlated with industrial activity and utilization and not with any single end market given the diversification of our business and high exposure to replacement channels. This diversification limits our exposure to trends in any given end market. In addition, a majority of our sales are generated from customers in replacement channels, who serve primarily a large base of installed equipment that follows a natural maintenance cycle that is somewhat less susceptible to various trends that affect our end markets. Such trends include infrastructure investment and construction activity, agricultural production and related commodity prices, commercial and passenger vehicle production, miles driven and fleet age, evolving regulatory requirements related to emissions and fuel economy and oil and gas prices and production. Key indicators of our performance include industrial production, industrial sales and manufacturer shipments.

During the year ended December 28, 2019, sales into replacement channels accounted for approximately 63% of our total net sales. Our replacement sales cover a very broad range of applications and industries and, accordingly, are highly correlated with industrial activity and utilization and not a single end market. Replacement products are principally sold through distribution partners that may carry a very broad line of products or may specialize in products associated with a smaller set of end market applications.

During the year ended December 28, 2019, sales into first-fit channels accounted for approximately 37% of our total net sales. First-fit sales are to a variety of industrial and automotive customers. Our industrial first-fit customers cover a diverse range of industries and applications and many of our largest first-fit customers manufacture construction and agricultural equipment. Among our automotive first-fit customers, a majority of our net sales are to emerging market customers, where we believe our first-fit presence provides us with a strategic advantage in developing those markets and ultimately increasing our higher margin replacement channel sales. First-fit automotive sales in developed markets represented approximately 7% of our total net sales for the year ended December 28, 2019, with first-fit automotive sales in North America contributing less than 3% of total sales. As a result of the foregoing factors, we do not believe that our historical consolidated net sales have had any meaningful correlation to global automotive production but are positively correlated to industrial production.

Our recently completed manufacturing footprint investments and other productivity improvements in recent years have helped to position us to continue to make progress on our restructuring program, which is primarily intended to optimize our manufacturing and distribution footprint over the mid-term by removing structural fixed costs and, to a lesser degree, to streamline our SG&A back-office functions. We anticipate that most of the costs associated with these actions will be incurred during 2020 and 2021. Some of these costs will, in accordance with U.S. GAAP, be classified in cost of sales, negatively impacting gross margin, but due to their nature and impact of hindering comparison of the performance of our businesses on a period-over-period basis or with other businesses, they will be excluded from Adjusted EBITDA, consistent with the treatment of similar costs in the current and prior years.

V. Key Performance Indicators

We assess the financial performance of our businesses using a variety of measures. We believe that certain of these measures are particularly important and they are considered to be "key performance indicators". We refer to these measures throughout this annual report and use them in presentations to investors. In this section, we explain the relevance of each of the key performance indicators and, if they cannot be derived directly from the consolidated financial statements, show how they are calculated. Some of these measures are not explicitly defined under accounting principles generally accepted in the United States of America ("U.S. GAAP") and are therefore termed "non-GAAP" measures. We present a reconciliation of each non-GAAP measure to the most directly comparable measure defined under U.S. GAAP. We do not regard these non-GAAP measures as a substitute for, or superior to, the equivalent measures defined under U.S. GAAP. The non-GAAP measures described below may not be directly comparable with similarly-titled measures used by other companies.

EBITDA and Adjusted EBITDA

EBITDA is a non-GAAP measure that represents net income or loss for the period before the impact of income taxes, net interest and other expenses, depreciation and amortization. EBITDA is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense).

Management uses Adjusted EBITDA as its key profitability measure. This is a non-GAAP measure that represents EBITDA before certain items that are considered to hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses. We use Adjusted EBITDA as our measure of segment profitability to assess the performance of our businesses, and it is used for total Gates as well because we believe it is important to consider our profitability on a basis that is consistent with that of our operating segments, as well as that of our peer companies with a similar leveraged, private equity ownership history. We believe that Adjusted EBITDA should, therefore, be made available to securities analysts, investors and other interested parties to assist in their assessment of the performance of our businesses.

During the periods presented, the items excluded from EBITDA in computing Adjusted EBITDA primarily included:

- the non-cash charges in relation to share-based compensation;
- transaction-related expenses incurred in relation to business combinations and major corporate transactions, including acquisition integration activities;
- impairments, comprising impairments of goodwill and significant impairments or write downs of other assets;
- restructuring expenses, including severance-related expenses;
- the net gain or loss on disposals and on the exit of businesses; and
- fees paid to our private equity sponsor for monitoring, advisory and consulting services.

Differences exist among our businesses and from period to period in the extent to which their respective employees receive share-based compensation or a charge for such compensation is recognized. We therefore exclude from Adjusted EBITDA the non-cash charges in relation to share-based compensation in order to assess the relative performance of our businesses.

We exclude from Adjusted EBITDA acquisition-related costs that are required to be expensed in accordance with U.S. GAAP. In particular, we exclude the effect on cost of sales of the uplift to the carrying amount of inventory held by entities acquired by Gates. We also exclude costs associated with major corporate transactions because we do not believe that they relate to our performance. Other items are excluded from Adjusted EBITDA because they are individually or collectively significant items that are not considered to be representative of the performance of our businesses. During the periods presented, we excluded restructuring expenses and severance-related expenses that reflect specific, strategic actions taken by management to shutdown, downsize, or otherwise fundamentally reorganize areas of Gates' business; the net gain or loss on disposals of assets other than in the ordinary course of operations and gains and losses incurred in relation to non-Gates businesses disposed of in prior periods; significant impairments of intangibles and of other assets, representing the excess of their carrying amounts over the amounts that are expected to be recovered from them in the future; and fees paid to our private equity sponsor.

EBITDA and Adjusted EBITDA exclude items that can have a significant effect on our profit or loss and should, therefore, be used in conjunction with, not as substitutes for, profit or loss for the period. Management compensates for these limitations by separately monitoring net income from continuing operations for the period.

The following table reconciles net income from continuing operations, the most directly comparable GAAP measure, to EBITDA and Adjusted EBITDA:

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Net income from continuing operations	$ 694.7	$ 271.7	$ 182.0
Income tax (benefit) expense	(495.9)	31.8	(72.5)
Net interest and other expenses	148.0	193.3	293.4
Depreciation and amortization	222.2	218.5	212.2
EBITDA	**569.0**	**715.3**	**615.1**
Transaction-related expenses	15.0	6.0	5.4
Impairment of intangibles and other assets	2.6	6.7	18.1
Restructuring expenses	0.7	0.6	2.8
Share-based compensation expense	6.0	6.4	17.4
Sponsor fees (included in other operating expenses)	6.5	8.0	6.7
Impact of fair value adjustment on inventory (included in cost of sales)	—	0.3	1.2
Inventory impairments and adjustments (included in cost of sales)	1.2	1.2	2.0
Duplicate expenses incurred on facility relocation	—	5.2	—
Severance-related expenses (included in cost of sales)	4.0	1.7	—
Other primarily severance-related expenses (included in SG&A)	3.4	4.4	—
Other items not directly related to current operations	2.6	—	0.4
Adjusted EBITDA	**$ 611.0**	**$ 755.8**	**$ 669.1**

Adjusted EBITDA Margin

Adjusted EBITDA margin is a non-GAAP measure that represents Adjusted EBITDA expressed as a percentage of net sales. We use Adjusted EBITDA margin to measure the success of our businesses in managing our cost base and improving profitability.

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Net sales	$ 3,087.1	$ 3,347.6	$ 3,041.7
Adjusted EBITDA	$ 611.0	$ 755.8	$ 669.1
Adjusted EBITDA margin (%)	19.8 %	22.6 %	22.0 %

Core growth reconciliations

Core revenue growth is a non-GAAP measure that represents net sales for the period excluding the impacts of movements in average currency exchange rates and the first-year impacts of acquisitions and disposals. We present core growth because it allows for a meaningful comparison of year-over-year performance without the volatility caused by foreign currency gains or losses or the incomparability that would be caused by impacts of acquisitions or disposals. Management believes that this measure is therefore useful for securities analysts, investors and other interested parties to assist in their assessment of the operating performance of our businesses. The closest GAAP measure is net sales.

(dollars in millions)	For the year ended December 28, 2019		
	Power Transmission	Fluid Power	Total
Net sales for the year ended December 28, 2019	$ 1,945.7	$ 1,141.4	$ 3,087.1
Impact on net sales of movements in currency rates	56.5	20.5	77.0
Impact on net sales from recent acquisitions	—	(7.5)	(7.5)
Core revenue for the year ended December 28, 2019	**2,002.2**	**1,154.4**	**3,156.6**
Net sales for the year ended December 29, 2018	2,098.8	1,248.8	3,347.6
Decrease in net sales on a core basis (core revenue)	**$ (96.6)**	**$ (94.4)**	**$ (191.0)**
Core revenue growth	(4.6%)	(7.6%)	(5.7%)

(dollars in millions)	For the year ended December 29, 2018		
	Power Transmission	Fluid Power	Total
Net sales for the year ended December 29, 2018	$ 2,098.8	$ 1,248.8	$ 3,347.6
Impact on net sales of movements in currency rates	(17.8)	(1.1)	(18.9)
Impact on net sales from recent acquisitions	—	(107.2)	(107.2)
Core revenue for the year ended December 29, 2018	**2,081.0**	**1,140.5**	**3,221.5**
Net sales for the year ended December 30, 2017	2,009.4	1,032.3	3,041.7
Increase in net sales on a core basis (core revenue)	**$ 71.6**	**$ 108.2**	**$ 179.8**
Core revenue growth	3.6%	10.5%	5.9%

Net Debt

Management uses net debt, rather than the narrower measure of cash and cash equivalents and restricted cash which forms the basis for the consolidated statement of cash flows, as a measure of our liquidity and in assessing the strength of our balance sheet.

Management analyzes the key cash flow items driving the movement in net debt to better understand and assess Gates' cash performance and utilization in order to maximize the efficiency with which resources are allocated. The analysis of cash movements in net debt also allows management to more clearly identify the level of cash generated from operations that remains available for distribution after servicing our debt and post-employment benefit obligations and after the cash impacts of acquisitions and disposals.

Net debt represents the net total of:

- the principal amount of our debt; and
- the carrying amount of cash and cash equivalents.

Net debt was as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Principal amount of debt	$ 2,985.0	$ 3,027.1
Less: Cash and cash equivalents	(635.3)	(423.4)
Net debt	**$ 2,349.7**	**$ 2,603.7**

The principal amount of debt is reconciled to the carrying amount of debt as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Principal amount of debt	$ 2,985.0	$ 3,027.1
Accrued interest	15.2	26.6
Deferred issuance costs	(41.8)	(48.7)
Carrying amount of debt	**$ 2,958.4**	**$ 3,005.0**

Adjusted EBITDA adjustments for ratio calculation purposes

The financial maintenance ratio in our revolving credit agreement and other ratios related to incurrence-based covenants (measured only upon the taking of certain actions, including the incurrence of additional indebtedness) under our revolving credit facility, our term loan facility and the indenture governing our outstanding notes are calculated in part based on financial measures similar to Adjusted EBITDA as presented elsewhere in this report, which financial measures are determined at the Gates Global LLC level and adjust for certain additional items such as severance costs, the pro forma impacts of acquisitions and the pro forma impacts of cost-saving initiatives. These additional adjustments during the last 12 months, as calculated pursuant to such agreements, resulted in a net benefit to Adjusted EBITDA for ratio calculation purposes of $12.1 million.

Gates Industrial Corporation plc is not an obligor under our revolving credit facility, our term loan facility or the indenture governing our outstanding notes. Gates Global LLC, an indirect subsidiary of Gates Industrial Corporation plc, is the borrower under our revolving credit facility and our term loan facility and the issuer of our outstanding notes. The only significant difference between the results of operations and net assets that would be shown in the consolidated financial statements of Gates Global LLC and those for the Company that are included elsewhere in this report is a receivable of $9.2 million and $11.8 million as of December 28, 2019 and December 29, 2018, respectively, due to Gates Global LLC and its subsidiaries from indirect parent entities of Gates Global LLC and additional cash and cash equivalents held by the Company of $2.0 million and $1.1 million as of December 28, 2019 and December 29, 2018, respectively.

VI. Business Performance

Results for the year ended December 28, 2019 compared with the results for the year ended December 29, 2018

Summary Gates Performance

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018
Net sales	$ 3,087.1	$ 3,347.6
Cost of sales	1,944.6	2,017.0
Gross profit	**1,142.5**	**1,330.6**
Selling, general and administrative expenses	777.3	805.8
Transaction-related expenses	2.6	6.7
Impairment of intangibles and other assets	0.7	0.6
Restructuring expenses	6.0	6.4
Other operating expenses (income)	9.1	14.3
Operating income from continuing operations	**346.8**	**496.8**
Interest expense	157.8	175.9
Other (income) expenses	(9.8)	17.4
Income from continuing operations before taxes	**198.8**	**303.5**
Income tax expense (benefit)	(495.9)	31.8
Net income from continuing operations	**$ 694.7**	**$ 271.7**
Adjusted EBITDA[1]	$ 611.0	$ 755.8
Adjusted EBITDA margin (%)	19.8 %	22.6 %

(1) See note 5 to the accompanying consolidated financial statements for a reconciliation of net income from continuing operations, the closest comparable GAAP measure, to Adjusted EBITDA, for each of the periods presented.

Net sales

Net sales during the year ended December 28, 2019 were $3,087.1 million, down by 7.8%, or $260.5 million, compared with net sales during the prior year of $3,347.6 million. Our net sales for the year ended December 28, 2019 were adversely impacted by movements in average currency exchange rates of $77.0 million compared with the prior year, due principally to the strengthening of the U.S. dollar against a number of currencies, including the Euro ($31.7 million), the Chinese Renminbi ($13.6 million), the Brazilian Real ($7.9 million) and the Canadian dollar ($6.7 million). In addition, the acquisition of Rapro in April 2018 contributed $7.5 million to our net sales for the year ended December 28, 2019. Excluding these impacts, core sales decreased by $191.0 million, or 5.7%, during the year ended December 28, 2019 compared with the prior year. This decrease was due primarily to lower volumes of $249.3 million, offset partially by a $58.3 million benefit from favorable, inflation-mitigating pricing actions.

Core sales in our Power Transmission and Fluid Power businesses declined by 4.6% and 7.6%, respectively, for the year ended December 28, 2019. Globally, these declines arose primarily in sales to our industrial customers, with these sales declining by $113.2 million on a core basis, compared with a $77.8 million decline in core sales to our automotive customers. Industrial first-fit and replacement sales declined by 6.9% and 6.5%, respectively, during the year ended December 28, 2019 compared with the prior year, driven primarily by declines in the agriculture and construction end markets in North America. Sales to the industrial end markets in Greater China and East Asia & India both were down during the year ended December 28, 2019 compared with the prior year, driven by a 7.9% decline in the general industrial end markets in both regions, with increasing weakness in construction equipment sales as the year has progressed. This was broadly offset by growth in sales to the industrial end markets in EMEA, with growth across all end markets except for agriculture.

Global sales to the automotive end markets declined by 6.3% during the year ended December 28, 2019 compared with the prior year, driven by sales to first-fit customers, which declined by 9.2% during the year ended December 28, 2019 compared with the prior year. The decline in automotive end market sales was driven mostly by the broad economic softness in EMEA, with sales from this region declining by 13.6%, or $70.5 million, during the year ended December 28, 2019 compared with the prior year. Growth in Greater China and South America was flat, but the other regions declined by low single digits on a percentage basis as compared with the prior year.

Cost of sales

Cost of sales for the year ended December 28, 2019 was $1,944.6 million, a decrease of 3.6%, or $72.4 million, compared with $2,017.0 million for the prior year. The decrease was driven primarily by lower volumes of $110.9 million, favorable movements in average currency exchange rates of $51.8 million, and $33.8 million of benefits from our procurement initiatives. These decreases were offset primarily by $63.2 million of a combination of wage and material inflation and $47.2 million from lower manufacturing performance driven by the lower absorption of fixed costs on lower production volumes and some excess variable costs as we continued to adjust our production costs to align with the demand outlook. In addition, cost of sales for the year ended December 28, 2019 was adversely impacted by $10.1 million of increases in tariffs and $7.0 million of higher depreciation relating primarily to the new facilities opened in 2018, compared with the prior year.

Gross profit

Gross profit for the year ended December 28, 2019 was $1,142.5 million, down 14.1% from $1,330.6 million for the prior year, driven primarily by lower volumes of $138.4 million, $47.2 million of lower manufacturing performance driven by the lower absorption of fixed costs on lower production volumes, $63.2 million of unfavorable wage and material inflation, and $25.2 million of unfavorable movements in average currency exchange rates, offset by a $58.3 million benefit from favorable, inflation-mitigating pricing actions and $33.8 million of benefits from our procurement initiatives.

Our gross profit margin dropped by 270 basis points to 37.0% for the year ended December 28, 2019. Excluding the impact of facility closure-related inventory impairments of $1.2 million and $4.0 million of involuntary termination benefits paid in relation to permanent reductions in force, primarily in Asia and North America, gross margin was 37.2%, down from 39.7% for the prior year. In both cases, these decreases were driven by the factors described above.

Selling, general and administrative expenses

SG&A expenses for the year ended December 28, 2019 were $777.3 million compared with $805.8 million for the prior year. This decrease of $28.5 million was driven primarily by $17.8 million of favorable impacts from movements in average currency exchange rates and $12.1 million of net labor-related benefits which related primarily to headcount reductions and lower variable compensation, offset partially by higher stock-based compensation.

Transaction-related expenses

Transaction-related expenses for the year ended December 28, 2019 were $2.6 million compared with an expense of $6.7 million for the prior year. Net expenses for the year ended December 28, 2019 related primarily to exploratory merger and acquisition activity, as well as to corporate filings and transactions to provide the Company with flexibility for future raising of capital and debt, share buybacks and dividend payments. These expenses were offset partially by the release of an accrual from a prior period acquisition. The transaction-related expenses incurred in the prior year included $4.2 million related to our initial public offering and a further $0.3 million related to the extension in January 2018 of the maturity of our two revolving credit facilities. The remainder of the transaction-related expenses in the prior year related to the recent business acquisitions.

Restructuring expenses

We continue to make progress on our restructuring program, which, as described further under "Business Trends" above, is primarily intended to optimize our manufacturing and distribution footprint over the mid-term by removing structural fixed costs, and, to a lesser degree, to streamline our SG&A back-office functions.

Restructuring expenses of $7.2 million were recognized during the year ended December 28, 2019, including an impairment of inventory of $1.2 million due to facility closures and consolidations, which is included in cost of sales. The remainder of the expenses related primarily to severance costs, predominantly due to the closure of one of our facilities in France, a refocusing of operations in our Galesburg, Illinois facility, and a strategic restructuring of part of our Asian business. Restructuring expenses of $7.3 million were recognized during the prior year, related primarily to the implementation of our European corporate center and a strategic restructuring of part of our Asian business. Also included in restructuring expenses in the prior year was an impairment of inventory of $0.9 million, which was recognized in cost of sales.

Interest expense

Our interest expense was as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018
Debt:		
Dollar Term Loan	$ 80.7	$ 86.7
Euro Term Loan	22.4	22.8
Dollar Senior Notes	35.4	36.6
Euro Senior Notes	—	1.2
Other loans	0.1	—
	138.6	**147.3**
Amortization of deferred issuance costs	16.6	25.6
Other interest expense	2.6	3.0
	$ 157.8	**$ 175.9**

Details of our long-term debt are presented in note 18 to the consolidated financial statements included elsewhere in this report.

Interest on debt for the year ended December 28, 2019 decreased when compared with the equivalent prior year due primarily to the interest savings from debt repayments, in particular, the repayment of $913.7 million of senior notes in the first quarter of 2018 in conjunction with our initial public offering, in addition to margin reductions that came into effect partway during the prior year. The amortization of deferred issuance costs was lower in the year ended December 28, 2019, due to the acceleration in the prior year of $15.4 million of deferred issuance cost amortization as a consequence of the repayment of debt during the first quarter of 2018. This benefit was offset partially by the accelerated amortization of deferred issuance costs of $6.1 million during the current year, due to prepayment of our outstanding 6.00% Senior Notes due 2022 (the "6.00% Dollar Senior Notes") as part of the refinancing transactions described further in note 18 to the consolidated financial statements included elsewhere in this report.

Other (income) expenses

Our other (income) expenses were as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018
Interest income on bank deposits	$ (5.7)	$ (3.7)
Foreign currency gain on net debt and hedging instruments	(0.8)	(8.7)
Premiums paid on debt redemptions	—	27.0
Net adjustments related to post-retirement benefits	(3.1)	3.1
Other	(0.2)	(0.3)
	$ (9.8)	**$ 17.4**

Other income for the year ended December 28, 2019 was $9.8 million, compared with an expense of $17.4 million in the prior year. This change was driven primarily by the payment in the prior year of $27.0 million of redemption premiums on repayment of the Euro Senior Notes and partial repayment of the 6.00% Dollar Senior Notes in January and February of 2018. Partially offsetting this cost in the prior year was a $5.8 million gain on a derivative used to lock in the exchange rate used to repay the Euro Senior Notes. Higher expected returns on plan assets based on actuarial valuations drove the majority of the remaining increase in other (income) expenses during the year ended December 28, 2019 compared with the prior year.

Income tax (benefit) expense

For the year ended December 28, 2019, we had an income tax benefit of $495.9 million on pre-tax income of $198.8 million, which resulted in an effective tax rate of (249.4%) compared with an income tax expense of $31.8 million on pre-tax income of $303.5 million, which resulted in an effective tax rate of 10.5% for the year ended December 29, 2018.

Our effective tax rate for the year ended December 28, 2019 is lower than our effective tax rate for the year ended December 29, 2018 primarily due to a $579.0 million tax benefit from the release of a valuation allowance against certain deferred tax assets, partially offset by $59.7 million of tax expense from related unrecognized tax benefits, both of which resulted from the implementation of our European corporate center. Excluding these one-time impacts our 2019 effective tax rate would have been 11.8%, which is slightly higher when compared to our 2018 effective rate of 10.5%. This was driven by certain one-time tax benefits in 2018, including $37.6 million of tax benefits for manufacturing incentives, unrecognized tax benefits, and changes in valuation allowances, which were partially offset by $16.0 million of increase in tax on international operations and U.S. base erosion and anti-abuse tax. In addition, in 2019 our tax on international operations was lower by $19.9 million than in 2018, which was partially offset by an increase of $7.9 million in unrecognized tax benefits.

Deferred Income Tax Assets and Liabilities

We recognize deferred income tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under U.S. GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We evaluate the recoverability of our deferred income tax assets, weighing all positive and negative evidence, and are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred income tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of deferred income tax assets requires us to weigh all available evidence, including:

- taxable income in prior carry back years if carry back is permitted under the relevant tax law;
- future reversal of existing temporary differences;
- tax-planning strategies that are prudent and feasible; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined in 2019 that it was more likely than not that deferred income tax assets in Luxembourg, the U.K., and the U.S. totaling $586.2 million were realizable.

Included within the $586.2 million total deferred income tax assets are deferred income tax assets totaling $579.0 million related to €2.1 billion of indefinite lived net operating losses in Luxembourg for which our evaluation of the positive and negative evidence changed during the first quarter of 2019 due to the implementation of our European corporate center. Our European corporate center was implemented in 2019 to centralize and strengthen regional operations in Europe, which thereafter became centrally managed from Luxembourg.

The positive evidence that existed in favor of releasing the allowance as of December 28, 2019 and ultimately outweighed the negative evidence included the following:

- our profitability in Europe in 2018 and prior years and for 2019, as well as our expectations regarding the sustainability of these profits;
- the impact of the implementation of our European corporate center, which created an expectation of future income in Luxembourg and, thereby, removed negative evidence that supported maintaining the valuation allowance against our deferred income tax assets as of December 29, 2018; and
- the fact that our net operating loss carryforwards in Luxembourg are indefinite lived.

Further, as a result of additional financing income realized in 2019 that created taxable profits in the U.K., combined with our estimate that the financing income is likely to remain as a source of income through 2024, our judgment changed in the first quarter of 2019 regarding valuation allowances totaling $6.1 million related to indefinite lived net operating losses in the U.K.

Finally, as a result of changes in estimates of future taxable profits in the first quarter of 2019, our judgment changed regarding the realizability of $1.1 million of U.S. foreign tax credits with related recorded valuation allowances.

As of each reporting date, management considers new evidence, both positive and negative, that could impact our view with regard to the future realization of deferred income tax assets. We will maintain our positions with regard to future realization of deferred income tax assets, including those with respect to which we continue maintaining valuation allowances, until there is sufficient new evidence to support a change in expectations. Such a change in expectations could arise due to many factors, including those impacting our forecasts of future earnings, as well as changes in the international tax laws under which we operate and tax planning. It is not reasonably possible to forecast any such changes at the present time, but it is possible that, should they arise, our view of their effect on the future realization of deferred income tax assets may impact materially our consolidated financial statements.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 28, 2019 was $611.0 million, a decrease of 19.2% or $144.8 million, compared with Adjusted EBITDA of $755.8 million for the prior year. Adjusted EBITDA margin was 19.8% for the year ended December 28, 2019, a 280 basis point decrease from the prior year margin of 22.6%. The decrease in Adjusted EBITDA was driven primarily by reduced gross profit of $188.1 million, which was primarily the result of lower sales of $260.5 million, as well as the impact of lower fixed cost absorption on cost of sales as described above. Partially offsetting this decrease were lower SG&A expenses as noted above.

For a reconciliation of net income to Adjusted EBITDA for each of the periods presented and the calculation of the Adjusted EBITDA margin, see note 5 to the accompanying consolidated financial statements.

Analysis by Operating Segment

Power Transmission (63.0% of Gates' net sales for the year ended December 28, 2019)

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018	Period over Period Change
Net sales	$ 1,945.7	$ 2,098.8	(7.3%)
Adjusted EBITDA	$ 412.6	$ 492.2	(16.2%)
Adjusted EBITDA margin (%)	21.2 %	23.5 %	

Net sales in Power Transmission for the year ended December 28, 2019 were $1,945.7 million, a decrease of 7.3%, or $153.1 million, when compared with the prior year net sales of $2,098.8 million. Excluding the adverse impact of movements in average currency exchange rates of $56.5 million, core sales decreased by 4.6%, or $96.6 million, compared with the prior year. The majority of this decrease was due to lower sales volumes of $123.1 million, offset partially by benefits from favorable, inflation-mitigating pricing actions.

Power Transmission's core growth decline was driven by a decrease in sales to automotive first-fit customers, which decreased by 9.2% during the year ended December 28, 2019 compared with the prior year, due primarily to weak demand in Europe and Greater China resulting from a combination of market softness, macroeconomic headwinds and continuing trade tensions. A decrease in sales to automotive replacement customers also contributed to the decline, but less significantly, with core sales lower by 3.1% during the year ended December 28, 2019 compared with the prior year. Sales into the industrial end markets were relatively flat during the year ended December 28, 2019. General industrial end market sales declined by 3.4%, driven primarily by East Asia & India and Greater China, but this was decline was mostly offset by growth in all other regions, particularly in EMEA.

Our Power Transmission Adjusted EBITDA for the year ended December 28, 2019 was $412.6 million, a decrease of 16.2% or $79.6 million, compared with the prior year Adjusted EBITDA of $492.2 million. Movements in average currency exchange rates drove $10.5 million of this decrease. Excluding this impact, the decrease in Adjusted EBITDA was driven by similar factors as described above with lower volumes of $64.7 million, $39.6 million of unfavorable wage and material inflation and lower manufacturing performance of $25.8 million. Partially offsetting these decreases were benefits from procurement initiatives of $24.7 million, benefits from favorable, inflation-mitigating pricing actions of $26.5 million and lower SG&A spend. Adjusted EBITDA margin for the year ended December 28, 2019 was 21.2%, a 230 basis point decline from the prior year Adjusted EBITDA margin of 23.5%, driven by the impacts described above.

Fluid Power (37.0% of Gates' net sales for the year ended December 28, 2019)

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018	Period over Period Change
Net sales	$ 1,141.4	$ 1,248.8	(8.6%)
Adjusted EBITDA	$ 198.4	$ 263.6	(24.7%)
Adjusted EBITDA margin (%)	17.4%	21.1%	

Net sales in Fluid Power for the year ended December 28, 2019 were $1,141.4 million, a decrease of 8.6%, or $107.4 million, compared with net sales during the prior year of $1,248.8 million. Excluding the adverse impact of movements in average currency exchange rates of $20.5 million and the benefit of $7.5 million from the acquisition of Rapro in April 2018, core sales decreased by 7.6%, or $94.4 million, compared with the prior year. This decrease was due primarily to lower volumes of $126.2 million, offset partially by benefits from favorable, inflation-mitigating pricing actions.

The lower core sales growth in the year ended December 28, 2019 was driven almost exclusively by a decrease in sales to industrial end markets, which declined by 8.8% during the year ended December 28, 2019 compared with the prior year. This decrease was driven by the agriculture and construction end markets, which have continued to be challenging, declining by 18.8% and 8.2%, respectively, during the year ended December 28, 2019, compared with the prior year, primarily in North America. Fluid Power's sales to automotive end markets were flat during the year ended December 28, 2019 compared with the prior year, with sales in the emerging markets outperforming sales to the developed markets.

Adjusted EBITDA for the year ended December 28, 2019 was $198.4 million, a decrease of 24.7%, or $65.2 million, compared with the prior year Adjusted EBITDA of $263.6 million. The decrease in Adjusted EBITDA was driven primarily lower volumes of $68.3 million, a $23.6 million adverse impact from inflation and lower manufacturing performance of $21.4 million driven by lower fixed cost absorption on lower volumes and some excess variable costs. These impacts were offset partially by a $31.8 million benefit from favorable, inflation-mitigating pricing actions and a $10.8 million benefit from our procurement initiatives. The Adjusted EBITDA margin consequently decreased by 370 basis points.

VII. Liquidity and Capital Resources

Treasury Responsibilities and Philosophy

Our primary liquidity and capital resource needs are for working capital, debt service requirements, capital expenditures, facility expansions and acquisitions. We expect to finance our future cash requirements with cash on hand, cash flows from operations and, where necessary, borrowings under our revolving credit facilities. We have historically relied on our cash flow from operations and various debt and equity financings for liquidity.

From time to time, we enter into currency derivative contracts to manage currency transaction exposures. Similarly from time to time we may enter into interest rate derivatives to maintain the desired mix of floating and fixed rate debt.

As market conditions warrant, we and our majority equity holders, Blackstone and its affiliates, may from time to time, seek to repurchase debt securities that we have issued or loans that we have borrowed in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing our indebtedness, any such purchases may be funded by existing cash balances or by incurring new secured or unsecured debt, including borrowings under our credit facilities. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material. Any such purchases may relate to a substantial amount of a particular tranche of debt, with a corresponding reduction, where relevant, in the trading liquidity of that debt. In addition, any such purchases made at prices below the "adjusted issue price" (as defined for U.S. federal income tax purposes) may result in taxable cancellation of indebtedness income to us, which amounts may be material, and result in related adverse tax consequences to us.

It is our policy to retain sufficient liquidity throughout the capital expenditure cycle to maintain our financial flexibility. Considering the declines in our business in the first quarter of 2020, discussed under "Outlook" in Section I of this Strategic Report, and the continued expected declines compared with the prior year due to the impacts of COVID-19 on our business, we have modeled a base case for our business for the remainder of 2020 and through the end of 2021. We also stress-tested our base case with a variety of further downside scenarios in order to evaluate our expected cash flows and overall liquidity requirements. Based on this modeling and stress testing, and considering we do not have any meaningful debt maturities until 2024, we do not currently anticipate any material long-term deterioration in our overall liquidity position in the foreseeable future. We therefore believe that as of December 28, 2019, we have adequate liquidity and capital resources for at least the next twelve months from the issuance of this Annual Report. See "Borrowing Headroom" below for further discussion of our existing liquidity as of December 28, 2019 and "Significant events since year end" in the Directors' Report for our liquidity position as of March 28, 2020.

Cash Flow

Year ended December 28, 2019 compared with the year ended December 29, 2018

Cash provided by operations was $348.9 million during the year ended December 28, 2019 compared with cash provided by operations of $313.5 million during the prior year. Operating cash inflow before movements in operating assets and liabilities was $290.1 million during the year ended December 28, 2019 compared with $478.0 million during the prior year, a decrease of $187.9 million which was due largely to the lower operational performance which adversely impacted operating income. The movement in taxes payable, which was an increase of $46.2 million during the current year compared with a decrease of $15.3 million in the prior year, was due primarily to a non-cash increase in tax contingencies associated with our business reorganization in Europe. Movements in operating assets and liabilities other than taxes payable during the year ended December 28, 2019 gave rise to an increase of $12.6 million in cash compared with a decrease of $149.2 million in the prior year. The increase, or source of cash, during the current period was driven primarily by the decreases in trade accounts payable and inventories, both linked to lower production volumes and our continued focus on management of working capital. During the prior year, the decrease was due primarily to increases in accounts receivable and inventories due to the strong demand environment at the time.

Net cash used in investing activities during the year ended December 28, 2019 was $78.0 million, compared with $243.6 million in the prior year. Capital expenditures decreased by $99.6 million from $182.7 million in the year ended December 29, 2018 to $83.1 million in the year ended December 28, 2019, driven primarily by expenditures in the prior year related to the expansion of one of our existing facilities and construction of two new facilities. Net cash used in investing activities in the prior year also included $50.9 million of cash paid in relation to the acquisition of Rapro in April 2018.

Net cash used in financing activities was $59.3 million during the year ended December 28, 2019, compared with $198.9 million in the prior year. This net outflow in the year ended December 28, 2019 related primarily to quarterly amortization payments of $24.7 million under the term loans, together with $28.8 million of dividend payments to non-controlling shareholders of certain majority-owned subsidiaries. As described further in note 18 to the accompanying consolidated financial statements, during November 2019, we issued and sold $568.0 million of unsecured 6.25% Senior Notes due 2026 (the "6.25% Dollar Senior Notes") and used the proceeds from this debt issuance in December 2019 to redeem all $568.0 million of our outstanding 6.00% Dollar Senior Notes. Costs of approximately $8.6 million were incurred in relation to these transactions, of which $8.3 million was paid during the year ended December 28, 2019.

In the prior year, net cash used in financing activities related primarily to the net cash received from our initial public offering of $799.1 million and the use of those funds (in addition to a portion of cash on hand) to redeem debt of $913.7 million and to pay premiums thereon of $27.0 million. In addition, during the prior year, we made $35.2 million of dividend payments to non-controlling shareholders of certain majority-owned subsidiaries.

Indebtedness

Our long-term debt, consisting principally of two term loans and U.S. dollar denominated unsecured notes, was as follows:

	Carrying amount		Principal amount	
(dollars in millions)	As of December 28, 2019	As of December 29, 2018	As of December 28, 2019	As of December 29, 2018
Debt:				
—Secured				
Term Loans (U.S. dollar and Euro denominated)	$ 2,395.0	$ 2,428.7	$ 2,416.8	$ 2,458.5
—Unsecured				
Senior Notes (U.S. dollar)	563.2	575.7	568.0	568.0
Other debt	0.2	0.6	0.2	0.6
	$ 2,958.4	**$ 3,005.0**	**$ 2,985.0**	**$ 3,027.1**

Details of our long-term debt are presented in note 18 to the consolidated financial statements included elsewhere in this annual report.

On November 22, 2019, we issued and sold $568.0 million of 6.25% Dollar Senior Notes, described further below. The proceeds from this debt issuance were used on December 5, 2019 to redeem all $568.0 million of our outstanding 6.00% Dollar Senior Notes, plus interest accrued up to and including the redemption date of $13.2 million. The majority of the costs totaling approximately $8.6 million related to the refinancing transactions have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method.

During January 2018, upon completion of our initial public offering, the applicable margins on each of the term loans was reduced by a further 0.25%, as agreed as part of the refinancing completed in November 2017.

During the first quarter of 2018, we redeemed in full our outstanding €235.0 million of Euro Senior Notes and made partial redemptions of the 6.00% Dollar Senior Notes. All of the 2018 prepayments, totaling $913.7 million in principal, $27.0 million in redemption premiums and $3.1 million in accrued interest, were funded primarily by the net proceeds from our IPO, with the remainder of the funds coming from cash on hand.

A wholly-owned U.S. subsidiary of Gates Global LLC is the principal obligor under the Term Loans for U.S. federal income tax purposes and makes the payments due on this tranche of debt. As a result, interest received by lenders of this tranche of debt is U.S. source income.

Dollar and Euro Term Loans

Our secured credit facilities include a Dollar Term Loan credit facility and a Euro Term Loan credit facility that were drawn on July 3, 2014. These facilities mature on March 31, 2024. These term loan facilities bear interest at a floating rate. As of December 28, 2019, borrowings under the Dollar Term Loan facility, which currently bears interest at LIBOR, subject to a floor of 1.00%, plus a margin of 2.75%, bore interest at a rate of 4.45% per annum. The Dollar Term Loan interest rate is re-set on the last business day of each month. As of December 28, 2019, the Euro Term Loan bore interest at EURIBOR, which is currently below 0%, subject to a floor of 0%, plus a margin of 3.00%. The Euro Term Loan interest rate is re-set on the last business day of each quarter.

Both term loans are subject to quarterly amortization payments of 0.25%, based on the original principal amount less certain prepayments with the balance payable on maturity. During the year ended December 28, 2019, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $17.3 million and $7.4 million, respectively. During the year ended December 29, 2018, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $13.0 million and $5.8 million, respectively.

Under the terms of the credit agreement, we are obliged to offer annually to the term loan lenders an "excess cash flow" amount as defined under the agreement, based on the preceding year's final results. Based on our 2019 results, the leverage ratio as defined under the credit agreement was below the threshold above which payments are required, and therefore no excess cash flow payment will be required to be made in 2020.

During the periods presented, foreign exchange gains were recognized in respect of the Euro Term Loans as summarized in the table below. As a portion of the facility was designated as a net investment hedge of certain of our Euro investments, a corresponding portion of the foreign exchange gains (losses) were recognized in other comprehensive income ("OCI").

	For the year ended	
(dollars in millions)	December 28, 2019	December 29, 2018
Gain recognized in statement of operations	$ 17.3	$ 43.6
Loss recognized in OCI	(0.2)	(6.0)
Total gain	**$ 17.1**	**$ 37.6**

During the year ended December 28, 2019, the above net foreign exchange gains recognized in the other (income) expenses line have been substantially offset by net foreign exchange movements on Euro-denominated intercompany loans as part of our overall hedging strategy.

Our Term Loans, which mature after 2021, use LIBOR as a benchmark for establishing the rate of interest. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform and is not expected to be maintained after 2021. The transition to alternatives to LIBOR could be modestly disruptive to credit markets, and while we don't believe that the impact would be material to us, we do not yet have insight into what those impacts might be.

Unsecured Senior Notes

As of December 28, 2019, we had $568.0 million of 6.25% Dollar Senior Notes outstanding that were issued in November 2019. These notes are scheduled to mature on January 15, 2026 and bear interest at an annual fixed rate of 6.25% with semi-annual interest payments.

On and after January 15, 2022, we may redeem the 6.25% Dollar Senior Notes, at our option, in whole at any time or in part from time to time, at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid interest to the redemption date:

During the year commencing:	Redemption Price
—2022	103.125 %
—2023	101.563 %
—2024 and thereafter	100.000 %

Additionally, net cash proceeds from an equity offering can be utilized at any time prior to January 15, 2022, to redeem up to 40% of the notes at a redemption price equal to 106.250% of the principal amount thereof, plus accrued and unpaid interest through to the redemption date.

Upon the occurrence of a change of control or a certain qualifying asset sale, the holders of the notes will have the right to require us to make an offer to repurchase each holder's notes at a price equal to 101% (in the case of a change of control) or 100% (in the case of an asset sale) of their principal amount, plus accrued and unpaid interest.

As noted above, on December 5, 2019, we redeemed in full all $568.0 million of our outstanding 6.00% Dollar Senior Notes due in 2022, and, on January 31, 2018, we redeemed in full all €235.0 million of our outstanding Euro Senior Notes and made partial redemptions of the outstanding 6.00% Dollar Senior Notes due in 2022 totaling $622.0 million.

Up to the date of their redemption, foreign exchange losses of $9.2 million were recognized in respect of the Euro Senior Notes. Of these losses, $5.0 million was recognized in OCI for the period during which the facility was designated as a net investment hedge of certain of our Euro investments, and $4.2 million was recognized in the statement of operations.

Revolving Credit Facility

We also have a secured revolving credit facility, maturing on January 29, 2023, that provides for multi-currency revolving loans up to an aggregate principal amount of $185.0 million, with a letter of credit sub-facility of $20.0 million. This facility matures on January 29, 2023.

As of both December 28, 2019 and December 29, 2018, there were no drawings for cash under the revolving credit facility and there were no letters of credit outstanding.

Asset-Backed Revolver

We have a revolving credit facility backed by certain of our assets in North America. The facility allows for loans of up to a maximum of $325.0 million ($294.6 million as of December 28, 2019, compared with $325.0 million as of December 29, 2018, based on the values of the secured assets on those dates) with a letter of credit sub-facility of $150.0 million within this maximum. The facility matures on January 29, 2023.

As of both December 28, 2019 and December 29, 2018, there were no drawings for cash under the asset-backed revolver, but there were letters of credit outstanding of $50.1 million and $57.8 million, respectively.

Non-guarantor subsidiaries

The majority of the Company's U.S. subsidiaries are guarantors of the senior secured credit facilities.

For the year ended December 28, 2019, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 70% of our net sales and 65% of our EBITDA as defined in the financial covenants attaching to the senior secured credit facilities. As of December 28, 2019, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 54% of our total assets and approximately 21% of our total liabilities.

Net Debt

Net debt is a non-GAAP measure representing the principal amount of our debt less the carrying amount of cash and cash equivalents. During the year ended December 28, 2019, our net debt decreased by $254.0 million from $2,603.7 million as of December 29, 2018 to $2,349.7 million as of December 28, 2019. Excluding changes in foreign currency exchange rates, the decrease in net debt during the year ended December 28, 2019 was driven primarily by the increase in cash, a function of cash provided by operating activities of $348.9 million, offset partially by capital expenditures of $83.1 million and dividends paid to non-controlling shareholders of $28.8 million.

Movements in foreign currency exchange rates had a favorable net impact of $17.5 million on net debt during the year ended December 28, 2019, with the majority of the movement relating to the impact of the weakening of the Euro against the U.S. dollar on our Euro-denominated debt.

Borrowing Headroom

As of December 28, 2019, our asset-backed revolving credit facility had a borrowing base of $294.6 million, being the maximum amount we can draw down based on the current value of the secured assets. The facility was undrawn for cash, but there were letters of credit outstanding against the facility amounting to $50.1 million. We also have a secured revolving credit facility that provides for multi-currency revolving loans up to an aggregate principal amount of $185.0 million.

In total, our committed borrowing headroom was $429.5 million, in addition to cash balances of $635.3 million.

Cash Balances

As of December 28, 2019, our total cash and cash equivalents were $635.3 million, compared with $423.4 million as of December 29, 2018.

Restricted cash was $1.3 million as of December 28, 2019, compared to $1.2 million as of December 29, 2018, primarily $1.0 million as of December 28, 2019 and $1.0 million as of December 29, 2018 was held in escrow for insurance purposes. Cash held in our non-wholly owned Asian subsidiaries was $141.5 million and $130.3 million as of December 28, 2019 and December 29, 2018, respectively.

Other Assets and Liabilities

Goodwill

As of December 28, 2019, the carrying amount of goodwill was $2,060.5 million, compared with $2,045.9 million as of December 29, 2018. The majority of this goodwill arose on the acquisition of Gates by Blackstone in 2014. During the year ended December 28, 2019, movements in currency exchange rates resulted in an increase in goodwill of $14.6 million.

The goodwill at December 28, 2019 is principally attributable to expected future opportunities to improve sales and margins by further developing Gates' product range and service capabilities, extending the Group's global presence by further penetrating markets in emerging economies, and by pursuing performance improvement initiatives.

Other intangible assets

As of December 28, 2019, the carrying amount of other intangible assets was $1,876.0 million, compared with $1,990.6 million as of December 29, 2018. Details of these intangible assets, which are comprised primarily of customer relationship intangibles and brand and trade name intangibles, are set out in note 14 to the consolidated financial statements included elsewhere in this annual report. During the year ended December 28, 2019, we recognized a decrease of $114.6 million in intangible assets other than goodwill, primarily due to $129.9 million of amortization, partially offset by movements in currency exchange rates of $3.0 million.

Property, plant and equipment

As of December 28, 2019, the carrying amount of property, plant and equipment was $727.9 million, compared with $756.3 million as of December 29, 2018. This included $2.8 million held under finance leases, compared with $2.2 million as of the prior year end. During the year ended December 28, 2019, we recognized additions of $73.0 million, including finance leases. Offsetting this increase was depreciation of $92.3 million and disposals of property, plant and equipment of $4.6 million.

Deferred tax assets

As explained further in note 9 to the consolidated financial statements accompanying this annual report, we determined during Fiscal 2019 that it was more likely than not that deferred tax assets in Luxembourg, the U.K. and the U.S., totaling $586.2 million, were realizable. This drove the increase in the deferred tax asset balance to $587.1 million as of December 28, 2019, compared with $5.1 million as of December 29, 2018.

Operating lease right-of-use assets & lease liabilities

As explained further in Note 2A to the consolidated financial statements accompanying this annual report, at the beginning of our 2019 fiscal year we adopted Topic 842 "Leases" under U.S. GAAP. This new accounting standard was adopted using a practical expedient that does not require comparative information in these consolidated financial statements to be restated. On transition, we recognized a right-of-use asset of $126.0 million and a lease liability of $132.9 million, with the difference relating primarily to reclassifying deferred rent liabilities that existed under Topic 840 into the new right-of-use asset. As of December 28, 2019, we reported operating right-of-use assets of $123.0 million and lease liabilities of $134.3 million. Note 15 to the consolidated financial statements accompanying this annual report sets out disclosures related to our leases in accordance with the new guidance.

Capital structure

Details of the issued share capital, together with details of the movements in Gates Industrial Corporation plc's issued share capital during the year are shown in note 7 to the accompanying parent company financial statements. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. As discussed further under "—Distributable Reserves" below, during Fiscal 2019, the Company completed a capital reduction in order to create distributable reserves.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation, including any securities laws applicable to holders of the Company's shares. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Under its Articles of Association, the company has authority to issue 3,000,000,000 ordinary shares.

Distributable Reserves

Under the laws of England and Wales, future dividend payments or share repurchases may only be made out of "distributable reserves" on the Company's statutory balance sheet. During August 2019, the High Court of Justice in London sanctioned a reduction in the Company's statutory capital for the purpose of creating distributable reserves by approving the cancellation of the deferred shares in issue and the cancellation of the entire amount standing to the credit of the Company's share premium account, creating $5.5 billion of distributable reserves. These transactions, which have no impact on the consolidated U.S. GAAP financial statements, facilitate the possible future payment of dividends to shareholders of the Company or possible future share repurchases.

Off-Balance Sheet Arrangements

We have not entered into any transaction, agreement or other contractual arrangement that is considered to be an off-balance sheet arrangement that is required to be disclosed.

VIII. Critical Accounting Estimates and Judgments

Details of our significant accounting policies are set out in note 2 to our audited consolidated financial statements included elsewhere in this annual report.

When applying our accounting policies, we must make assumptions, judgments and estimates concerning the future that affect reported amounts of assets, liabilities, revenue and expenses. We makes these assumptions, estimates and judgments based on factors such as historical experience, the observance of trends in the industries in which we operate and information available from our customers and other outside sources. Due to the inherent uncertainty involved in making assumptions, estimates and judgments, the actual outcomes could be different. The policies discussed below are considered by management to be more critical than other policies because their application involves a significant amount of estimation uncertainty that increases the risk of a material adjustment to the carrying amounts of our assets and liabilities.

Net Sales

We derive our net sales primarily from the sale of a wide range of power transmission and fluid power products and components for a large variety of industrial and automotive applications, both in the aftermarket and first-fit channels, throughout the world.

In the substantial majority of our agreements with customers, we consider accepted customer purchase orders, which in some cases are governed by master sales agreements, to represent the contracts with our customers. Revenue from the sale of goods under these contracts is measured at the invoiced amount, net of estimated returns, early settlement discounts and rebates. Taxes collected from customers relating to product sales and remitted to government authorities are excluded from revenues. Where a customer has the right to return goods, future returns are estimated based on historical returns profiles. Settlement discounts that may apply to unpaid invoices are estimated based on the settlement histories of the relevant customers. Our transaction prices often include variable consideration, usually in the form of discounts and rebates that may apply to issued invoices. The reduction in the transaction price for variable consideration requires that we make estimates of the expected total qualifying sales to the relevant customers. These estimates, including an analysis for potential constraint on variable consideration, take into account factors such as the nature of the rebate program, historical information and expectations of customer and consumer behavior. Overall, the transaction price is reduced to reflect our estimate of the amount of consideration that is not probable of significant reversal.

We allocate the transaction price to each distinct performance obligation based on their relative standalone selling price. The product price as specified on the accepted purchase order or similar binding contract is considered to be the standalone selling price. In substantially all of our contracts with customers, our performance obligations are satisfied at a point in time, rather than over a period of time, when control of the product is transferred to the customer. This occurs typically at shipment. In determining whether control has transferred and the customer is consequently able to control the use of the product for their own benefit, we consider if there is a present right to payment, legal title and physical possession has been transferred, whether the risks and rewards of ownership have transferred to the customer, and the customer accepts the asset.

Impairment of Goodwill and Other Indefinite-Lived Assets

Goodwill and other indefinite-lived intangible assets are subject to an annual impairment test but are also tested for impairment if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount.

Goodwill

Goodwill arising in a business combination is allocated to the reporting unit that is expected to benefit from the synergies of the acquisition. Where goodwill is attributable to more than one reporting unit, the goodwill is determined by allocating the purchase consideration in proportion to their respective business enterprise values and comparing the allocated purchase consideration with the fair value of the identifiable assets and liabilities of the reporting unit.

Goodwill is not amortized but is tested for impairment on the first day of the fourth quarter or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable and is carried at cost less any recognized impairment.

To identify a potential impairment of goodwill, the fair value of the reporting unit to which the goodwill is allocated is compared with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. If the fair value is lower than the carrying amount, an impairment charge is recognized

for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the amount of goodwill allocated to that reporting unit.

Management based the fair value calculations on a weighted blend of the income and market approaches. The income approach was based on cash flow forecasts derived from the most recent financial plans approved by the board of directors, in which the principal assumptions were those regarding sales growth rates, selling prices and changes in direct costs. Forecasts for the following two years were based on region-specific growth assumptions determined by management, taking into account strategic initiatives.

Cash flows for each of the reporting units for the years beyond this period were projected to grow at compound annual growth rates reflecting annual decreases over the next seven years from the 2022 growth rates to the terminal growth rate. For Gates as a whole, this growth rate was 3.7%. The terminal growth rate for both reporting units was set at 2.5%, a rate that does not exceed the expected long-term growth rates in the respective principal end markets.

Management applied discount rates to the resulting cash flow projections that reflect current market assessments of the time value of money and the risks specific to each reporting unit. In each case, the discount rate was determined using a capital asset pricing model. The discount rates used in the impairment tests of goodwill during Fiscal 2019 were 10.5% for both reporting units.

For both reporting units, the fair values exceeded the carrying values and no goodwill impairments were therefore recognized during Fiscal 2019, Fiscal 2018, or Fiscal 2017. However, due primarily to the current challenging market conditions and their impact on our near-term outlook, the fair values of each of the Power Transmission and Fluid Power reporting units as calculated on first day of the fourth quarter of Fiscal 2019 were 15.8% and 14.4% lower, respectively, as compared with their fair values as calculated as part of the Fiscal 2018 annual impairment test. This has accordingly reduced the excess of the fair values of our reporting units over their carrying values. A further decline in the fair value of greater than 14% and 8% on our Power Transmission and Fluid Power reporting units, respectively, all else being equal, would result in an impairment of the goodwill allocated to those reporting units.

We base our fair value estimates on assumptions we believe to be reasonable at the time but that are unpredictable and inherently uncertain. In addition, we make certain judgments and assumptions in allocating goodwill between reporting units and in allocating shared assets and liabilities to determine the carrying values for each of our reporting units tested. Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years.

Indefinite-Lived Assets Other than Goodwill

To identify a potential impairment of indefinite-lived assets other than goodwill, the fair value of the asset is compared with its carrying amount. If the fair value of the indefinite-lived asset exceeds its carrying amount, it is not considered impaired. Fair value is calculated based on the anticipated net cash inflows and outflows related to the indefinite-lived asset.

During the periods covered by this annual report, we held indefinite-lived brand and trade name intangible assets. We test these intangibles for impairment on the first day of the fourth quarter or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable and is carried at cost less any recognized impairment.

The fair value for our indefinite-lived brand and trade name intangible assets was determined using a relief from royalty valuation methodology in which the key assumptions included sales growth rates and an estimated royalty rate. Sales forecasts were determined on the same basis as those used for the annual impairment testing of goodwill (as described above).

Management applied discount rates to the calculated royalty savings that reflect current market assessments of the time value of money and the risks specific to each region in which those royalty savings arose. In each case, the discount rate was determined using a capital asset pricing model adjusted for a premium to reflect the higher risk specific to the nature of the intangible asset. The discount rates used in Fiscal 2019 impairment test was 11.5%. As a result of the impairment testing, no impairment was recognized during Fiscal 2019. However, due primarily to the current challenging market conditions and their impact on our near-term outlook, the fair value of our brand and trade name intangible assets as calculated on first day of the fourth quarter of Fiscal 2019 was 23.3% lower than their fair value as calculated as part of the Fiscal 2018 annual impairment test. This has accordingly reduced the excess of the fair value of these assets over their carrying value. A further decline in the fair value of greater than 16%, all else being equal, would result in an impairment of the brand and trade name intangible assets.

We base our fair value estimates on assumptions we believe to be reasonable at the time but that are unpredictable and inherently uncertain. Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years.

Taxation

We are subject to income tax in most of the jurisdictions in which we operate. Management is required to exercise significant judgment in determining our provision for income taxes. Management's judgment is required in relation to unrecognized income tax benefits whereby additional current tax may become payable in the future following the audit by tax authorities of previously-filed tax returns. It is possible that the final outcome of these unrecognized income tax benefits may differ from management's estimates.

Management assesses unrecognized income tax benefits based upon an evaluation of the facts, circumstances and information available at the balance sheet date. Provision is made for unrecognized tax benefits to the extent that the amounts previously taken or expected to be taken in tax returns exceeds the tax benefits that are recognized in the consolidated financial statements in respect of the tax positions. A tax benefit is recognized in the consolidated financial statements only if management considers that it is more likely than not that the tax position will be sustained on examination by the relevant tax authority solely on the technical merits of the position and is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement assuming that the tax authority has full knowledge of all relevant information. Provisions for unrecognized income tax benefits are reviewed regularly and are adjusted to reflect events such as the expiration of limitation periods for assessing tax, guidance given by the tax authorities and court decisions.

Deferred income tax assets and liabilities are recognized based on the expected future tax consequences of the difference between the financial statement carrying amount and the respective tax basis. Deferred income taxes are measured on the enacted rates expected to apply to taxable income at the time the difference is anticipated to reverse. Deferred income tax assets are reduced through the establishment of a valuation allowance if it is more likely than not that the deferred income tax asset will not be realized taking into account the timing and amount of the reversal of taxable temporary differences, expected future taxable income and tax planning strategies.

Deferred income tax is provided on certain taxable temporary differences arising on investments in foreign subsidiaries, except where we intend, and are able, to reinvest such amounts on a permanent basis or to remit such amounts in a tax-free manner.

We have recorded valuation allowances against certain of our deferred income tax assets and we intend to continue maintaining such valuation allowances until there is sufficient evidence to support the reduction of all or some portion of these allowances. During the year ended December 28, 2019, we determined that it was more likely than not that certain deferred income tax assets in Luxembourg, the U.K., and the U.S. totaling $586.2 million were realizable.

Accounting Pronouncements Not Yet Adopted

Recently-issued accounting pronouncements that may be relevant to our operations but have not yet been adopted are outlined in note 3 to our audited consolidated financial statements included elsewhere in this annual report.

IX. Financial Risk Management Objectives and Policies

Our market risk includes the potential loss arising from adverse changes in foreign currency exchange rates, interest rates, commodity prices, and the credit risk of our customers and third-party depository institutions that hold our cash and short-term deposits. From time to time, we use derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts, interest rate caps (options) and interest rate swaps, to reduce our exposure to foreign currency risk and interest rate risk. We do not hold or issue derivatives for speculative purposes and monitor closely the credit quality of the institutions with which we transact. Our objective in managing these risks is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates and interest rate movements.

On a regular basis, we monitor third-party depository institutions that hold our cash and short-term investments and we diversify these assets among counterparties to minimize exposure to any one of these entities. We also monitor the creditworthiness of our customers and suppliers to mitigate any adverse impact.

Foreign Currency Exchange Risk

We have global operations and thus make investments and enter into transactions denominated in various foreign currencies. Our operating results are impacted by buying, selling and financing in currencies other than the functional currency of our operating companies. We monitor exposure to transactions denominated in currencies other than the functional currency of each country in which we operate, and enter into forward contracts to mitigate that exposure as needed. We also naturally hedge foreign currency through our production in the countries in which we sell our products.

In addition, we are exposed to currency risk associated with translating our non-U.S. dollar financial statements into U.S. dollars, which is our reporting currency. As a result, we are exposed to movements in the exchange rates of various currencies against the U.S. dollar. Translational foreign exchange risks arise predominantly on the potential increase in our significant euro debt when translated to U.S. dollars, as well as on the potential decreases in the value of our earnings, cash balances and other net assets denominated in euro and other currencies when translated to U.S. dollars.

The currency profiles of our cash and debt are centrally managed as are decisions about the location of cash. The currency profile of cash and debt, after taking into account the effect of the currency swaps and forwards used to manage those profiles, were as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Cash and cash equivalents by currency:		
—U.S. dollar	$ 336.9	$ 170.8
—Chinese Yuan Renminbi	81.1	59.8
—Indian Rupee	43.2	30.7
—Euro	28.0	45.0
—Japanese Yen	29.9	35.6
—Other	116.2	81.5
	$ 635.3	**$ 423.4**
Principal amount of debt by currency:		
—U.S. dollar	$ 1,982.7	$ 2,014.4
—Euro	1,002.3	1,012.7
	$ 2,985.0	**$ 3,027.1**

As described in note 16 to the audited consolidated financial statements included elsewhere in this annual report, during Fiscal 2019 and Fiscal 2018 we had designated a portion of our Euro Term Loans, and, prior to their repayment in January 2018, €235.0 million of our Euro Notes, as well as a €254.5 million cross currency swap as hedges of a portion of our net investment in euro-denominated foreign operations. Changes in the value of these instruments resulting from fluctuations in the euro to U.S. dollar exchange rate are accordingly recorded as foreign currency translation adjustments within other comprehensive income.

Interest Rate Risk

Our prevailing market risk on interest rates is the potential fluctuation in interest costs and in the fair value of long-term debt resulting from movements in interest rates.

We use interest rate derivatives as part of our interest rate risk management strategy to add stability to interest expense and to manage our exposure to interest rate movements. The interest rate caps are designated as cash flow hedges and involve the receipt of variable rate payments from a counterparty if interest rates rise above the strike rate on the contract in exchange for a premium. The following table summarizes the key terms of the active interest rate derivatives held by the Company:

	Notional principal amount ($ millions)	Interest rate				
		Payable		Receivable		
		Variable	Fixed	Variable	Fixed	Variable rate index
As of December 28, 2019						
Maturity date:						
—June 2020	$ 1,200.0	— %	0.5 %	— %	— %	3 month LIBOR
—June 2023	€ 425.0	— %	0.3 %	— %	— %	3 month EURIBOR
As of December 29, 2018						
Maturity date:						
—June 2019	$ 1,000.0	— %	1.3 %	1.8 %	— %	3 month LIBOR
—June 2020	$ 200.0	— %	0.3 %	0.8 %	— %	3 month LIBOR

Additionally, as of December 28, 2019 and December 29, 2018, we held three pay-fixed, receive-floating interest rate swaps with an aggregate notional amount of $870.0 million, which run from June 30, 2020 through June 30, 2023.

The interest rate profile of the Company's financial assets and liabilities, after taking into account the effect of the interest rate hedging activities, was as follows:

	As of December 28, 2019				As of December 29, 2018			
	Interest-bearing				Interest-bearing			
(dollars in millions)	Floating rate	Fixed rate	Non-interest bearing	Total	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets:								
Available-for-sale investments	$ —	$ —	$ 0.8	**$ 0.8**	$ —	$ —	$ 0.8	**$ 0.8**
Cash and cash equivalents	380.4	—	254.9	**635.3**	193.7	—	229.7	**423.4**
Restricted cash	—	—	1.3	**1.3**	—	—	1.2	**1.2**
	380.4	**—**	**257.0**	**637.4**	**193.7**	**—**	**231.7**	**425.4**
Financial liabilities:								
Debt	(741.7)	(2,243.1)	(0.2)	**(2,985.0)**	(1,258.8)	(1,768.0)	(0.3)	**(3,027.1)**
Obligations under finance leases	—	(1.7)	—	**(1.7)**	—	(1.1)	—	**(1.1)**
	(741.7)	**(2,244.8)**	**(0.2)**	**(2,986.7)**	**(1,258.8)**	**(1,769.1)**	**(0.3)**	**(3,028.2)**
	$ (361.3)	**$ (2,244.8)**	**$ 256.8**	**$ (2,349.3)**	**$ (1,065.1)**	**$ (1,769.1)**	**$ 231.4**	**$ (2,602.8)**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Our debt facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. We aim to reduce liquidity risk by diversifying our funding sources, maintaining adequate headroom under our debt facilities and by staggering the maturities of our debt.

We have established long-term credit ratings of B2 Stable with Moody's and B+ Stable with Standard & Poor's. Credit ratings are subject to regular review by the credit rating agencies and may change in response to economic and commercial developments.

Commodity Risk

We source a wide variety of materials and components from a network of global suppliers. While such materials are typically available from numerous suppliers, commodity raw materials such as aluminum, steel and polymers are subject to price fluctuations, which could have a negative impact on our results. We primarily manage these risks through normal operating activities. We strive to pass along such commodity price increases to customers to avoid profit margin erosion and utilize lean initiatives to further mitigate the impact of commodity raw material price fluctuations as we achieve improved efficiencies. We historically have not entered into any derivative commodity instruments to manage the exposure to changing price risk for supplies, but we will continue to evaluate their viability.

Credit risk

Our principal financial assets are cash and cash equivalents, trade and other receivables, derivatives and investments.

We regularly monitor third-party depository institutions that hold our cash and short-term investments, primarily for safety of principal and secondarily for maximizing yield on those funds. We diversify our cash and short-term investments among counterparties to minimize exposure to any one of these entities.

To mitigate the credit risk attributable to our trade receivables we perform credit verifications and monitor closely the creditworthiness of new and existing customers. The amounts presented in the balance sheet for trade receivables are net of allowances for doubtful receivables. An allowance for doubtful receivables is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on derivative financial instruments is limited because the counterparties are financial institutions with high credit-ratings assigned by international credit-rating agencies.

We have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

X. Employees

In the workplace, our aim is to be an employer of choice. We believe there is a strong correlation between effective people practices and business success. We can improve the performance of the business by developing our employees to their full potential, by motivating staff appropriately and through prudent succession planning. Each of our businesses is encouraged to implement comprehensive employment policies designed to motivate employees and to determine ways in which knowledge and skills can best contribute towards the success of the business.

We place considerable value on the involvement of our employees and have continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and announcements. Employees or employee representatives are consulted on a wide range of matters affecting their current and future interests especially in the area of compensation, benefits and employee engagement through employee engagement surveys, formal development plan discussions with their managers and focus groups. In addition, a majority of employees are eligible to receive annual or more frequent bonuses/commissions related to the overall profitability of the Company, the profitability of the specific region, business or facility for which they work, or for the sales they generate with our customers.

As of December 28, 2019, we employed approximately 14,700 full time employees worldwide. Approximately 6,700 of our employees were located in North America, 3,700 in EMEA, 3,700 in Greater China and East Asia & India and 600 in South America. Some of our employees are members of labor unions and over many years we have been able to maintain successful relationships with the unions and employment organizations. To date, employee relations have been flexible and constructive as we continue to pursue lean manufacturing improvements in our plants.

The importance placed on health and safety by the Board and management of Gates is reflective of the belief that our commercial success is tied to strong health and safety performance. We aspire to achieve the same high safety standards throughout our business, regardless of the type of operation or its location.

Community involvement

Gates recognizes that success as a business enterprise is affected by the vitality of the communities in which our people work and live, and of the nonprofit organizations that serve the needs and interests of these communities. The Gates Industrial Corporation Foundation plays an important role in our philanthropy program and actively supports civic, community, arts, cultural, health and welfare initiatives, as well as education programs and scholarships. In the U.S., we have a dollar-for-dollar matching program for qualifying charitable contributions made by our employees. Matching donations are made by the Gates Industrial Corporation Foundation, which also donates to selected charities on behalf of the Company. Outside of the U.S., Gates provides support to many local charities in a variety of countries in which we operate. We believe that education is an important part of the development of our employees and of the communities we serve. Therefore, the Company provides education assistance for qualifying employees and their children, setting the foundation for their future success and helping to develop our future workforce.

Human rights issues

The Company is committed to high ethical standards and conducting its business in compliance with the principles laid out in the U.K. Modern Slavery Act and applicable human rights, labor and employment, discrimination, health and safety, and immigration laws of the countries in which we operate. The Company does not condone or use child labor, forced labor or human trafficking in any of its operations and endeavors to engage with other companies that embrace similar values and respect for human rights.

The Company maintains various policies which adhere to human rights principles and foster high ethical standards in its business, including policies and guidelines on anti-corruption, anti-boycott, global antitrust and fair competition, conflict of interest, and human rights. Our employees receive training on these policies and have access to them at each of our facilities. Through the communication, promotion and administration of these policies, the Company expects all employees to uphold the highest levels of honesty, integrity and ethical standards, to act in full compliance with all applicable laws in the performance of their roles and the conduct of our business and operations and to avoid actual or apparent conflicts of interest between their personal and professional affairs. This includes striving to maintain a professional, safe and discrimination-free work environment and hiring, evaluating and promoting employees on the basis of their ability, achievements, experience and performance. Ethnic, sexual, racial, religious or any other type of harassment is unacceptable at any of our locations.

The Company is committed to equal opportunity in recruiting, hiring, developing, promoting and compensating employees without regard to age, race, color, gender, sexual orientation, gender identity or expression, transgender status, religion, national origin, ancestry, citizenship, disability, protected veteran status, marital status, genetic information, pregnancy, childbirth or related medical conditions, or any other basis protected by federal, state or local law.

The Company prohibits employees from making or offering to make gifts, payments or other inducements to certain recipients if the gifts, payments or inducements are made to corruptly influence the decision or action of any government employee, official, candidate or political party, or to gain an inappropriate advantage in business.

The Company prohibits any director, officer, employee and any third party working on behalf of the company from engaging in the facilitation or acts leading to tax evasion.

To encourage reporting of violations of company policies, including unethical behavior and discrimination, the Company maintains a whistleblower hotline through which employees may call or write anonymously to report concerns. Neither the Company, the Audit Committee nor any other director or agent of the Company will discharge, demote, suspend, threaten, harass or in any other manner discriminate or retaliate, directly or indirectly, against any person who, in good faith, makes a report. The compliance office thoroughly investigates each allegation and inappropriate conduct or behavior is subject to disciplinary action, up to and including termination. Results of each investigation and action taken are reported to the audit committee of our board of directors on a quarterly basis.

Diversity and inclusion

In order to foster diversity within the workforce, the Company established the Gates Diversity & Inclusion group. This group is committed to creating and sustaining a diverse workplace that understands and values individual differences across demographics, experiences and perspectives, while also ensuring business practices are both collaborative and respectful. The group's mission is to highlight diversity and inclusion, both within our organization and across communities worldwide, share educational information and insights, and take the time to celebrate differences within the workforce. The group's membership consists of representatives of relevant diversity groups across Gates' businesses as well as representatives of Gates' senior management and human resources department. For the purpose of this initiative, diversity groups are made up of Gates' employees who help us identify and understand the diversity issues facing our workforce. Diversity and inclusion helps us do business the right way in the workplace, with our business partners and across our local communities. We believe a diverse environment widens our talent pool as we aim to be seen as an employer of choice by people from all backgrounds.

Employee involvement and communication programs continue to be developed that are designed to provide equal opportunity to all, irrespective of sex, race, religion or color. Each business in the Group endeavors to provide equality of opportunity in recruiting, training, promoting and developing the careers of disabled persons, including offering continued employment and training of persons who become disabled while in the Company's employment.

Employee gender diversity

	As of December 28, 2019		As of December 29, 2018	
(in ones)	Male	Female	Male	Female
Directors	5	2	6	2
Senior Managers	50	11	53	7
Employees of the Company	11,030	3,619	11,751	3,669
	11,085	**3,632**	**11,810**	**3,678**

XI. Environmental Matters

Refer to "Environment and greenhouse gas emissions" in the Directors' Report.

The Strategic Report was approved by our board of directors and was signed on its behalf on May 6, 2020 by:

Ivo Jurek
Director and Chief Executive Officer

Company registered number: 10980824

Gates Industrial Corporation plc

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended December 28, 2019. Please see note 2 to the accompanying consolidated financial statements and note 2 to the parent company financial statements, respectively, for further details relating to the basis of preparation of those financial statements.

As permitted by section 414C(11) of the Companies Act 2006, the directors have elected to set out in the Strategic Report information that is required by Schedule 7 to the Accounting Regulations to be contained in the directors' report. The information in respect of which they have done so is identified within this report.

Board of directors

The following table presents certain information as of May 6, 2020 with respect to our board of directors (the "Board") who held office during the period and up to the date of signing of the financial statements:

Name	Appointed
Ivo Jurek	September 25, 2017
Julia C. Kahr	September 25, 2017
David L. Calhoun (resigned on January 9, 2020)	November 20, 2017
Neil P. Simpkins	November 20, 2017
John Plant (resigned on July 23, 2019)	December 15, 2017
Terry Klebe	December 15, 2017
Karyn Ovelmen (resigned on March 1, 2019)	December 15, 2017
James W. Ireland	November 7, 2018
Stephanie Mains	February 28, 2019
Wilson S. Neely	April 1, 2020

Dividends

The Company did not pay dividends during the period from incorporation to December 28, 2019.

The Board currently has no plans to pay dividends on the Company's ordinary shares. Future dividends, if any, and the timing of declaration of any such dividends, will be at the sole discretion of the Board and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that our Board may deem relevant, as well as our ability to pay dividends in compliance with the Companies Act 2006.

Political donations

No political donations were made by the Company during 2019 or 2018.

Use of financial instruments

Information on the Company's risk management process and the policies for mitigating certain types of risk are set out in section IX of the Strategic Report. Information about the use of financial instruments by the Company is set out in note 16 to the accompanying consolidated financial statements.

Significant events since year end

This report was issued on May 6, 2020. The Company has evaluated events and transactions subsequent to the balance sheet date.

The first quarter of 2020 marked the beginning of an unprecedented environment for the global economy, as governments, companies and communities implemented strict measures to minimize the spread of the COVID-19 pandemic. We are prioritizing the health and safety of our employees and the communities around the world in which we operate, taking additional protective measures in our plants to safely maintain operational continuity in support of our global customer base.

In early February, as our business in China was being impacted, we mobilized a centralized crisis response team that developed and is tactically engaged in the implementation of our countermeasure actions across our global footprint. We are adhering to local government mandates and guidance provided by health authorities and have proactively implemented quarantine protocols, social distancing policies, working from home arrangements, travel suspensions, frequent and extensive disinfecting of our workspaces, provision of personal protective equipment, and mandatory temperature monitoring at our facilities. We expect to continue to implement these measures and we may take further actions if required or recommended by government authorities or if we determine them to be in the best interests of our employees, customers, and suppliers.

Our operations are supported largely by local supply chains. Where necessary, we have taken steps to qualify additional suppliers to ensure we are able to maintain continuity of supply. Although we have not experienced any significant disruptions to date, certain of our suppliers have, or may in the future, temporarily close operations, delay order fulfillment or limit production due to the pandemic. Continued disruptions, shipping delays or insolvency of key vendors in our supply chain could make it difficult or more costly for us to obtain the raw materials or other inputs we need for our operations.

Gates employs an in-region, for-region manufacturing strategy, under which local operations primarily support local demand. In those cases where local production supports demand in other regions, contingency plans have been activated as appropriate. In addition to the handful of plants that were temporarily closed by government mandates, we have proactively managed our output to expected demand levels and occasionally suspended production at other plants for short periods of time. We may continue to experience these production disruptions, which could place constraints on our ability to produce our products and meet customer demand. Of these temporary closures in the first quarter, the most significant for us was in Greater China, where we closed all of our production facilities for approximately three weeks. We have since safely returned these plants to more normalized capacity. Our two largest regions of Europe and North America did not begin to see an impact from COVID-19 until late March. With large portions of the economies in these regions having effectively been shut down since the beginning of April, we expect the second quarter to be the most difficult of the year, with core revenue likely to sequentially decline in the range of 15-25% compared with the first quarter.

As shelter-in-place requirements ease and there is continued progress in the fight against COVID-19, we expect the second half of the year to improve sequentially from the second quarter. Given the magnitude of the decline we expect to experience in the first half of the year and the different rates of demand recovery we believe we will see across different end markets and geographies, we expect the full year to result in a revenue decline compared with the prior year. Reflecting the progress we made last year in right-sizing the business, we would expect our full-year decremental margin to be an improvement from what we saw in 2019, despite the relatively unexpected and significant decline in revenue as a result of the pandemic.

We have strength and flexibility in our liquidity position, which includes committed borrowing headroom of $440.3 million under our lines of credit (none of which are currently expected to be drawn in the foreseeable future), in addition to cash balances of $626.3 million as of March 28, 2020. Our business also has a demonstrated ability to generate free cash flow even in challenging environments.

As a result of the unpredictable and evolving impact of the pandemic and measures being taken around the world to combat its spread, the timing and trajectory of the recovery are unclear at this time, and the adverse impact of the pandemic on Gates' operations may be material.

Despite this highly uncertain environment, our experience in China and subsequently has helped frame our response to this crisis and our focus in 2020 will continue to be on:

- safely supporting our employees, customers and the communities in which we operate;
- actively managing what we can control in terms of our supply chains and operations;
- managing our compressible spending to the prevailing demand conditions by tightly controlling discretionary spending; and
- funding our key growth initiatives to enhance our differentiation in the market and allow us to emerge from this downturn in an even stronger competitive position.

The Company is not aware of any other events or transactions, other than those disclosed in the Future Developments section below, that occurred subsequent to the balance sheet date but prior to May 6, 2020 that would require recognition or disclosure in its consolidated financial statements.

Future developments

Section I of the Strategic Report sets out the Company's strategy and outlook. Aside from continuing to monitor the developing COVID-19 pandemic as described above, the directors do not anticipate any significant changes in the foreseeable future which could have a material impact on our future operations.

Following the U.K.'s exit from the European Union ("Brexit") on January 31, 2020, the directors are also monitoring the impact of this on our operations. We have a manufacturing presence in the U.K. that supplies both local customers and customers in the European Union and we also import products from the European Union and elsewhere for sale to U.K. customers. However, as a geographically diverse business, the directors do not anticipate that Brexit will result in any significant disruption to the Company. We will continue to evaluate any potential impacts during the 11-month Brexit implementation period and beyond, as the new relationship between the U.K. and the European Union is developed.

Research and development

Details of the activities of the Company in the field of research and development are set out in section II of the Strategic Report.

Branches

Gates Industrial Corporation plc is incorporated in the U.K., with its corporate functions located in Denver, Colorado in the U.S., and has no branches.

Acquisition of company shares

The Company does not currently have a share repurchase program, and did not acquire any shares under any share repurchase program during the period from incorporation to December 28, 2019.

Information relating to the compensation plans under which equity securities of the Company are authorized for issuance is set out under the Directors' Remuneration Report and is incorporated herein by reference.

Employees

Information relating to employees is incorporated herein by reference to section X of the Strategic Report.

Qualifying indemnity provisions

Each director is covered by appropriate directors' liability insurance, and the Company has indemnification arrangements with its executive officers and directors which, among other things, indemnify the individual against certain liabilities that may arise by reason of his or her status or service as a director or officer and advance expenses incurred as a result of certain proceedings. These agreements are intended to provide indemnification rights to the fullest extent permitted under applicable law and under our governing documents.

Environment and greenhouse gas emissions

Gates is committed to conducting our business with respect for the environment and the communities where we operate. Our operations, products and properties are subject to extensive U.S. and foreign federal, state, local, and provincial laws and regulations relating to environmental, health and safety protection, including laws and regulations governing air emissions, wastewater discharges, waste management and disposal, substances in products, and workplace health and safety, as well as the investigation and clean-up of contaminated sites. Under certain environmental laws, the obligation to investigate and remediate contamination at a facility may be imposed on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. We are currently performing environmental investigations and/or remediation at a number of former and current facilities in the United States and Canada and are incurring costs in relation to a number of offsite waste disposal sites.

Our Scope 1 and Scope 2 greenhouse gas emissions estimates for 2019 and 2018, based on the parameters below, are as follows:

	For the year ended December 28, 2019		For the year ended December 29, 2018	
	Metric tons of CO_2 equivalent	Metric tons of CO_2 equivalent per million dollars of net sales	Metric tons of CO_2 equivalent	Metric tons of CO_2 equivalent per million dollars of net sales
Scope 1 - direct emissions from onsite fuel combustion	91,951	29.79	97,076	32.50
Scope 2 - indirect emissions from the generation of purchased energy	169,706	54.97	187,481	62.76

Reporting period - The reporting period used for this information is December 30, 2018 to December 28, 2019, and December 31, 2017 to December 29, 2018. Greenhouse gas emissions decreased in the year ending December 28, 2019 due partly to production fluctuations but primarily due to the success of our global energy efficiency program in active demand side management.

Boundary summary - All manufacturing facilities either owned or under operational control were included, except as noted in the exclusions below. In addition, to ensure comparability, the prior period emissions presented above have been recalculated to include contributions from our recent acquisitions, namely Techflow Flexibles, Atlas Hydraulics and Rapro, which were previously excluded due to limitations on data availability at the time. For consistency with the current period data, the comparative data has also been represented for a change in the application of emission factors as discussed further below.

Data sources - Invoices and measurements were collected for relevant emission sources site by site. Where actual data was not available, estimates were used. For example, in cases where data is not available for a full 12-month period, available data is used to extrapolate and estimate the values for missing data.

Emission factors - Scope 1 emission factors used are primarily from the UK Department for Environment, Food & Rural Affairs ("DEFRA"). DEFRA emission factors based on gross calorific values have been applied to the calculations. For consistency, comparative period data, which was previously presented based on applying net calorific values, has been represented above on a gross calorific values basis. This change was made to align with our energy management information system provider who uses the higher heating value for converting fuel volume to energy, reflecting a gross calorific value. Residual emission factors for biomass combustion are sourced from the U.S. EPA's Greenhouse Gas Emissions Factors Hub and include emissions from methane (CH_4) and nitrous oxide (N_2O). Carbon dioxide emissions from biomass combustion are not included in this inventory, as they are considered biogenic emissions. Scope 2 emissions factors are primarily from the International Energy Agency, adjusted where more recent country or region specific governmental factors are published. Emissions are converted to carbon dioxide-equivalents (CO_2e) using Global Warming Potentials from the United Nations Intergovernmental Panel on Climate Change Fourth Assessment (IPCC AR4) Report.

Materiality threshold - Materiality for the Company is set at 5% with all facilities estimated to contribute >1% of total emissions included.

Exclusions -

- Most offices and sales offices, whose impact are anticipated to be below the materiality threshold;
- Process gases, Class I and Class II refrigerants, which have historically been immaterial; and
- Scope 3 indirect emissions.

Disclosure of information to auditors

In accordance with section 418 of the Companies Act 2006, each Director in office at the date the Directors' report is approved confirms that:

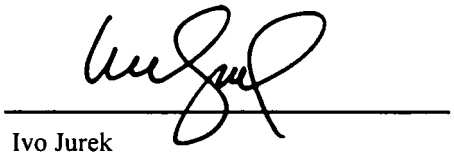
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

Deloitte LLP were appointed as auditor by the directors during the year following incorporation of the Company. Deloitte LLP have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

On behalf of the board of directors,



Ivo Jurek
Director and Chief Executive Officer
May 6, 2020

1 Bartholomew Lane
London
EC2N 2AX
United Kingdom

Gates Industrial Corporation plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and applicable law and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("United Kingdom Accounting Standards and applicable law"), including FRS 101 "*Reduced Disclosure Framework.*"

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 the parent company financial statements, the directors are required to:

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements within accounting principles generally accepted in the United States of America are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Gates Industrial Corporation plc

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT OF THE CHAIR OF THE COMPENSATION COMMITTEE

Dear Shareholders:

I am pleased to present our Company's remuneration report for the financial year ended December 28, 2019. Shareholders are invited to approve this Director's Remuneration Report at our annual general meeting of shareholders, to be held on June 22, 2020 (the "**AGM**").

In January 2018, the Company successfully completed an initial public offering (the "**IPO**") on the New York Stock Exchange ("**NYSE**"). As a NYSE listed company, we prepared our proxy statement for the AGM in accordance with the rules and regulations of the Securities and Exchange Commission (the "**SEC**"). In this proxy statement on Schedule 14A, which was filed with the SEC on April 1, 2020, you will find our compensation discussion and analysis ("**CD&A**") setting forth our overall philosophy regarding compensation of our executive officers, which should be read in conjunction with this Directors' Remuneration Report. In addition to the rules and regulations of the SEC, as a U.K. public limited company, we are also subject to the Companies Act and the regulations promulgated thereunder. Accordingly, we have produced this Directors' Remuneration Report to be approved by our shareholders at the AGM through a non-binding, advisory vote. This remuneration report consists of two sections: (i) this statement and (ii) the annual report on remuneration.

Our business and affairs are managed under the direction of our Board of Directors (the "**Board**"), which currently consists of seven directors including Mr. Jurek (our Chief Executive Officer and our sole "**Executive Director**"). Our non-employee directors, including our chair, are referred to as our "**Non-Executive Directors**." We are party to a shareholders agreement with certain affiliates of The Blackstone Group Inc. (our "**Sponsor**"). This agreement grants our Sponsor the right to designate nominees to our Board subject to the maintenance of certain ownership requirements in us. During financial year 2019, our Sponsor had three director appointees (Mr. Calhoun, Ms. Kahr and Mr. Simpkins) on the Board, who are Non-Executive Directors and who we refer to as the "**Sponsor-affiliated Directors**."

At the Company's first annual general meeting held on May 23, 2019, our shareholders approved the Directors' Remuneration Policy, which applies to the material elements of our compensation package for our executive officers, including our Executive Director, and our Non-Executive Directors. The Sponsor-affiliated Directors receive no compensation for serving on the Board. The Directors' Remuneration Policy will be in effect until a new policy is submitted for approval at the annual general meeting to be held in 2022, unless an earlier amendment by shareholders is required. To simplify our Directors' Remuneration Report, we have elected not to repeat our Directors' Remuneration Policy in this Report, which is available in Appendix A to last year's proxy statement on Schedule 14A filed with the SEC on April 10, 2019 and available at www.sec.gov and on our website at http://investors.gates.com.

We are a leading manufacturer of application-specific fluid power and power transmission solutions. We are driven to push the boundaries of materials science to engineer products that continually exceed expectations. To achieve our objectives, we must be the destination of choice for the best talent. Our philosophy is to offer a remuneration program that will enable us to attract, motivate, reward and retain high-caliber executives who are capable of creating and sustaining value for our customers and shareholders and achieving the Company's business goals over the long term. In addition, our remuneration program is designed to provide a fair and competitive compensation opportunity that appropriately rewards executives for their contributions to our success. We also believe that a significant portion of each executive's compensation should be "at risk" and tied to overall Company and individual performance.

Our Board has a compensation committee that oversees risks relating to the Company's compensation policies and practices (the "**Compensation Committee**"). The Compensation Committee provides assistance to the Board for oversight of the compensation packages of our directors and executive officers, including our Executive Director. The Compensation Committee is currently comprised of Ms. Julia Kahr (Chair) and Mr. Neil Simpkins and, prior to his resignation effective January 9, 2020, also included Mr. David Calhoun. The Compensation Committee annually reviews the performance and compensation for our directors and executive officers and, with input and guidance from an independent compensation consultant, approves or recommends to the full Board any changes to their compensation packages in light of such review.

The material elements of compensation for our Non-Executive directors who are not Sponsor-affiliated Directors are an annual cash retainer and an annual grant of time-based restricted stock units. The material elements of compensation for our executive officers are base salary, an annual bonus opportunity and a long-term incentive opportunity, skewed towards variable "at risk" compensation. Our Executive Director does not participate in deliberations regarding his own compensation. Our executive compensation program is designed to recognize an executive's scope of responsibilities, leadership ability and effectiveness in achieving key performance goals and objectives. As an executive's level of responsibility within Gates increases, so does the

percentage of total compensation that is linked to performance in the form of variable compensation. We also provide various retirement and benefit programs and modest, business-related benefits.

Below is our annual report on remuneration for the financial year ended December 28, 2019, which sets out the compensation for our directors, including our Executive Director, and details the link between Company performance and compensation for the period. You will see this aligns with our previously approved Directors' Remuneration Policy and supports our pay-for-performance philosophy. During financial year 2019, the Board of Directors made two noteworthy compensation award decisions.

First, in recognition of the successful IPO and subsequent record financial performance in financial year 2018 and to enhance both the retentive and performance-based value of our Executive Director's equity profile, in February 2019, the Board of Directors awarded the Executive Director a one-time special grant of premium-priced stock options with a grant date fair value of $4,500,000. They are structured as premium-priced options with an exercise price of $19.00 per share, which represents a 15% premium performance requirement over the grant-date fair market value of $16.46 per share before any gains are recognized. The premium-priced options will vest equally on the third, fourth and fifth anniversary of the grant date.

Second, due to a challenging financial year in financial year 2019, the Gates Financial Performance Factors of Adjusted EBITDA, Free Cash Flow and Revenue were all below threshold for the 2019 Annual Plan. As a result, the Compensation Committee determined in January 2020 that the Company had a 0% level of attainment of the Gates Financial Performance Factor at a company-wide level. Although the Company took actions in 2019 that we believe will improve the Company and better position us for future success, the Compensation Committee determined that in accordance with the Company's pay-for-performance philosophy, there would be no funding of the 2019 Annual Plan for our Executive Director and other employees who were eligible to participate in the Annual Plan.

Thank you for your continued interest in our company.

Julia C. Kahr
Chair of the Compensation Committee
May 6, 2020

THE DIRECTORS' REMUNERATION REPORT
For the financial year ended December 28, 2019 ("financial year 2019")

In accordance with the U.K. Large and Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "**Regulations**"), this Directors' Remuneration Report includes disclosure of certain amounts paid to directors for "qualifying services." This disclosure is presented for (i) financial year 2019, and where appropriate, (ii) the period from January 29, 2018 (the date on which the Company became the holding company subject to the Regulations) to December 29, 2018 (the "**2018 qualifying services period**"). For the period from incorporation on September 25, 2017 to January 28, 2018, none of the directors received any remuneration for qualifying services as directors of the Company.

The following directors served during financial year 2019:

Executive Director
- Mr. Ivo Jurek

Non-Executive Directors
- Mr. James Ireland
- Mr. Terry Klebe
- Ms. Stephanie Mains (appointed February 28, 2019)
- Mr. John Plant (resigned effective July 23, 2019)
- Ms. Karyn Ovelmen (resigned effective March 1, 2019)

Non-Executive Directors; Sponsor-affiliated Directors
- Mr. David Calhoun (resigned effective January 9, 2020)
- Ms. Julia Kahr
- Mr. Neil Simpkins

On March 20, 2020, the Board appointed Mr. Wilson Neely to serve as a Non-Executive Director until the AGM, at which time the shareholders will vote on his election for a one-year term expiring at our 2021 annual general meeting of shareholders.

Remuneration for each director

Single Figure Total Remuneration Table for Executive Directors (Audited)

This table reflects compensation earned by our Executive Director during financial year 2019 and during the 2018 qualifying services period, which includes base salary, annual cash bonus, long-term equity incentives and certain employee benefits.

Name and Principal Position	Year	Salary ($)[1]	Stock Awards ($)	Option Awards ($)[2]	Annual Bonus ($)[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Benefits ($)[4]	Total ($)
Executive Director								
Ivo Jurek	2019	$989,635	$—	$—	$—	$—	$164,509	$1,154,144
	2018	$868,119	$—	$—	$1,278,476	$—	$185,890	$2,332,485

(1) The amounts reported in the "Salary" column consist of base salary earned.

(2) Certain options held by our Executive Director, as set out in the "*Outstanding Equity Awards at December 28, 2019*" section below, vested during financial year 2019 but were awarded in his capacity as a director of a former parent of the group, Omaha Topco Limited, and are therefore not included in this table.

(3) The amounts reported in the "Annual Bonus" column consist of amounts earned under the Annual Plan. For a summary of the details of the performance measures used and their relative weighting, the performance targets set at the beginning of the performance period and details of actual performance relative to the targets set and measured over the relevant reporting period, and the resulting level of reward, please see the "*2019 Grants of Plan-Based Awards*" section below.

(4) The amounts reported in the "All Other Benefits" column reflect the sum of: (1) the amounts contributed by Gates to the Gates MatchMaker 401(k) Plan and the Supplemental Retirement Plan*; and (2) the cost of all other executive benefits, as shown in this table:

Name	Year	Company Contributions to Gates MatchMaker 401(k)	Company Contributions to Gates Supplemental Retirement Plan	Other Benefits	Total
I. Jurek	2019	$ 16,800	$ 125,927	$ 21,782	$ 164,509
	2018	$ 15,185	$ 148,722	$ 21,983	$ 185,890

* The Gates Supplemental Retirement Plan is a funded, nonqualified plan administered by the Company that provides our executives, including our Executive and Non-Executive Directors, with the ability to contribute portions of their compensation towards retirement on a tax-deferred basis. The Company makes a retirement contribution of 6% of eligible compensation on behalf of eligible employee participants, including our Executive Director, for eligible compensation that exceeds Section 401(a)(17) of Internal Revenue Code of 1986, as amended from time to time. The Company does not make contributions to this Plan for Non-Executive Directors participants.

2019 Grants of Plan-Based Awards

Executive Director

2019 Long-Term Incentive. In February 2019, our Board approved the first annual long-term incentive grant (the "**2019 LTI**") for executive officers under the 2018 Omnibus Incentive Plan to incentivize long-term business performance as well as to promote retention. The 2019 LTI for our Executive Director was comprised of 33% time-based vesting restricted stock units ("**RSUs**"), 33% time-based vesting non-qualified stock options ("**Options**") and 34% performance based RSUs ("**PRSUs**"). Each of the RSUs and Options will vest in substantially equal annual installments on the first three anniversaries of the grant date, subject to the executive's continued employment through the vesting date.

The PRSUs provide that 50% of the award will generally vest if the Company achieves a certain level of average annual Adjusted Return on Invested Capital ("**Adjusted ROIC**") and the remaining 50% will generally vest if the Company achieves certain Relative Total Shareholder Return ("**Relative TSR**") goals, in each case, performance is measured over a three year performance period based on the pre-established scale. The Compensation Committee selected Adjusted ROIC as a metric to drive focus on making sound investments and efficient use of working capital. The Compensation Committee selected Relative TRS as a metric to align a significant portion of pay delivery directly with shareholder value creation.

Performance Measure	Description
Adjusted ROIC (50%)	50% of our PRSU value is calculated as (Adjusted EBITDA-depreciation and amortization) x (1 – 25% tax rate)) divided by (total assets – non-restricted cash – accounts payable – goodwill and other intangible assets that arose from the acquisition of Gates by Blackstone in 2014). The financial measures are calculated in accordance with U.S. GAAP as presented in the Company's financial statements, except (i) Adjusted EBITDA is defined in substantially the same manner as described in "*V. Key Performance Indicators*" within the Strategic Report; (ii) the depreciation and amortization deduction excludes the amortization of intangible assets arising from the acquisition of Gates by Blackstone in 2014 and (iii) total assets excludes both income tax receivable and deferred income tax assets.
Relative TSR (50%)	50% of our PRSU value is based on our three-year relative TSR (total shareholder return) ranking against companies in the S&P 400 Capital Goods Industry Index. TSR is measured by stock price change and dividends over the performance period as a percentage of the beginning stock price. The beginning and ending stock prices are based on the 20-day trailing averages.

The total number of PRSUs that vest at the end of the three year performance period will range from 0% to a maximum of 200% as determined by measuring actual performance over the performance period for Adjusted ROIC and Relative TSR against the performance goals based on a pre-established scale. Payout for achievement between the performance levels will be determined based on a straight line interpolation of the applicable payout range rounded to the nearest whole percentage. Payouts are subject to the Executive Director's continued employment through the end of the applicable performance period, and are paid out after the

certification of the performance results by the Compensation Committee. The Compensation Committee chose Adjusted ROIC and Relative TRS performance goals that are, in the Compensation Committee's view, challenging but achievable.

One-time Premium-Priced Stock Options. In recognition of the successful IPO and subsequent record financial performance in 2018 and to enhance both the retentive and performance-based value of our Executive Director's equity profile, on February 22, 2019, the Board of Directors awarded Mr. Jurek a one-time special grant of premium-priced stock options with a grant date fair value of $4,500,000. They are structured as premium-priced options with an exercise price of $19.00 per share, which represents a 15% premium performance requirement over the grant-date fair market value of $16.46 per share before any gains are recognized. The premium-priced options will vest equally on the third, fourth and fifth anniversary of the grant date.

2019 Annual Plan. We provide a short-term annual incentive opportunity under the Gates Global Bonus Policy (the "**Annual Plan**") to (1) reward certain employees, including our Executive Director, for achieving specific performance goals that would advance our profitability; (2) drive key business results; and (3) recognize individuals based on their contributions to those results.

Payout targets for 2019 under the Annual Plan were based on a combination of the achievement of our financial performance goals in the 2019 fiscal year (the "**Gates Financial Performance Factor**"), which fund the Annual Plan, and the executive officer's performance during the fiscal year against his or her individual performance goals (the "**Individual Performance Factor**"). The Gates Financial Performance Factor determines the quantum of the Annual Plan. The Compensation Committee retained discretion to determine the financial performance measures and their relative contribution weighting and to calculate the Gates Financial Performance Factor applying measures, which are reassessed as critical indicators of our performance and which, when combined, contributed to sustainable growth. For financial year 2019 these were: Adjusted EBITDA (50%), Free Cash Flow (30%) and Revenue (20%) performance, as described below.

Performance Measure	Definitions
Adjusted EBITDA (50%)	Adjusted EBITDA under the Annual Plan is defined in substantially the same manner as described in "*V. Key Performance Indicators*" within the Strategic Report.
Free Cash Flow (30%)	Calculated as Adjusted EBITDA (as defined for purposes of the Annual Plan as described immediately above), less capital expenditures, plus or minus the change in average trade working capital; measured as an annualized average against actual performance.
Revenue (20%)	Revenue under the Annual Plan is defined as consolidated revenue as reflected in our financial statements, excluding the impacts of acquisitions and disposals made during the fiscal year.

The Compensation Committee reserved the ability to adjust the actual financial performance results to exclude the effects of extraordinary, unusual or infrequently occurring events. The weighted achievement factor for each of the financial performance measures was determined by multiplying the weight attributed to each performance measure by the applicable achievement factor for each measure. For each of the performance measures, the achievement factor was determined by calculating the payout percentage against the target goal based on a pre-established scale. Funding attainment with respect to these performance measures could range from:

- no funding for performance below the threshold requirement level;
- 50% of target incentive for achieving 95% of the target performance requirement;
- 100% of target incentive for achieving 100% of the target performance requirement; and
- 150% of target incentive for achieving 105% of the target performance requirement.

If achievement with respect to any performance measure falls between the threshold and target, or between the target and maximum, earned award amounts for that particular performance measure will be interpolated on a straight-line mathematical basis (and rounded to the nearest whole number). If achievement with respect to any performance measure does not reach threshold, then that measure will be deemed to have 0% attainment.

Due to a challenging financial year, the Gates Financial Performance Factors of Adjusted EBITDA, Free Cash Flow and Revenue were all below threshold for 2019 under the Annual Plan. As a result, the Compensation Committee determined in January 2020 that the Company had a 0% level of attainment of the Gates Financial Performance Factor at a company-wide level for financial year 2019. Although we took actions in 2019 that we believe will improve the Company and better positioned us for future success, the Compensation Committee determined there would be no funding of the Annual Plan for 2019 for the Executive Director and other employees who were eligible to participate in the Annual Plan.

The following table outlines the calculation of the potential funding of the Annual Plan based on the Gates Financial Performance Factors, based on the pre-established scale, and the actual funding for financial year 2019.

Measure	Weighting	Threshold (50% Funding for 95% of Target)	Target (100% Funding)	Maximum (150% Funding for 105% of Target)	2019 Attainment ($)	2019 Attainment (%)
			(Dollars in Millions)			
Adjusted EBITDA	50%	$ 755.3	$ 795.0	$ 834.8	$ 611.0	0%
Free Cash Flow	30%	$ 606.1	$ 638.0	$ 669.9	$ 587.1	0%
Revenue	20%	$ 3,265.5	$ 3,424.3	$ 3,557.0	$ 3,087.1	0%
Total						0%

Individual Performance Factor. Under the Annual Plan, the Compensation Committee establishes an Individual Performance Factor for our Executive Director based on both financial and non-financial objectives appropriate for his position. The attainment percentage of the Individual Performance Factor is based on his achievement of his goals and performance against his competencies, among other things, during the applicable year. There is no stated maximum on the Individual Performance Factor.

If the Annual Plan was funded for 2019, actual amounts paid under the Annual Plan would be calculated by multiplying the Executive Director's base salary in effect on December 31, 2019 by (i) his Annual Plan target bonus opportunity (which is reflected as a percentage of base salary), (ii) the final Gates Financial Performance Factor and (iii) the Individual Performance Factor. However, since the Compensation Committee did not fund the Annual Plan in 2019, the Individual Performance Factor did not impact his payout.

The following table illustrates the calculation of the annual cash incentive award that could have been earned by the Executive Director under the 2019 Annual Plan, had the Company attained 100% of the target performance requirement.

Name	Base Salary ($)	Target Bonus (% of Base Salary)	Target Bonus Opportunity ($)
I. Jurek	$1,000,000	150%	$1,500,000

2019 Grants of Plan-Based Awards Table (Audited)

The following table summarizes all grants of plan-based awards to our Executive Director in financial year 2019. No long-term equity incentive awards were granted to our Executive Director in the 2018 qualifying services period.

			Estimated Future Payouts under non-equity incentive plan awards ($)			Estimated Future Payouts under Equity Incentive Plan Awards (#)							
Name	Award Type	Grant Date	Threshold	Target	Max	Threshold	Target	Max	All other stock awards: number of shares of stock units (#)	All other option awards: number of securities underlying options (#)	Exercise or base price of option awards ($/sh)	Grant date face value of stock and option awards ($)[6]	Grant date fair value of stock and option awards ($)
I. Jurek	Annual Plan[1]	—	$150,000	$1,500,000	—								
	PRSU[2]	2/22/2019				929	92,952	185,904				$3,059,980	$ 1,865,082
	RSU[3]	2/22/2019							90,218			$1,484,988	$ 1,484,988
	Options[4]	2/22/2019								252,122	$ 16.46	$4,149,928	$ 1,482,477
	Options[5]	2/22/2019								796,460	$ 19.00	$13,109,73:	$ 4,499,999

(1) Represents the cash-based award opportunity range under the 2019 Annual Plan. For purposes of this table and threshold level disclosure, we assumed that the lowest weighted of the three performance measures achieved the threshold level of attainment (in other words, 10% of the target award was earned) and the Individual Performance Factor was set at 100%. The calculation uses the Executive Director's base salary as of December 31, 2019. The actual cash-based award earned by the Executive Director under the 2019 Annual Plan was $0.

(2) Represents the threshold, target and maximum payout shares of the PRSUs granted under our 2018 Omnibus Incentive Plan in 2019. The number of shares ultimately issued, which could be greater or less than target, will be based on achieving specific performance conditions. Threshold payout of shares is calculated assuming an attainment of 0.1% above threshold for the Adjusted ROIC measure. The grant date fair value of the PRSUs for the February 22, 2019 award was calculated in accordance with ASC Topic 718 based on target, the probable outcome of the performance conditions.

(3) Represents RSUs granted in 2019 under our 2018 Omnibus Incentive Plan. The grant date fair value of the RSUs for the February 22, 2019 award was the closing price on the date of grant.

(4) Represents Options granted in 2019 under our 2018 Omnibus Incentive Plan. The grant date fair value of the Options for the February 22, 2019 award was calculated in accordance with ASC Topic 718 using a Black-Scholes valuation model.

(5) Represents premium time-based stock options granted in 2019 under our 2018 Omnibus Incentive Plan. The grant date fair value of the Premium Options for the February 22, 2019 award was calculated in accordance with ASC Topic 718 using a Monte Carlo valuation model.

(6) Face value is calculated based on the closing share price on February 22, 2019 (the date of the grant) of $16.46, and, in the case of the PRSUs, on the maximum future share payout.

Outstanding Equity Awards at December 28, 2019 (Audited)

The following table provides information regarding outstanding equity awards held by our Executive Director as of December 28, 2019.

		Option Awards (*)					Stock Awards			
Name	Grant Date	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity Incentive Plan Awards: Number of securities underlying unexercised unearned options (#)[2]	Option Exercise Price ($)	Option Expiration Date	Number of shares or units of stock that have not vested (#)[3]	Market value of shares or units of stock that have not vested ($)[4]	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#)[7]	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested ($)[8]
I. Jurek..	*Awards without performance measures*									
	5/18/2015 Tier I[1]	813,791	203,448	—	$ 6.56	5/18/2025				
	5/2/2017 Tier I[1]	54,198	81,298	—	$ 7.87	5/2/2027				
	2/22/2019 Options[5]	—	252,122	—	$ 16.46	2/22/2029				
	2/22/2019 Options[6]	—	796,460	—	$ 19.00	2/22/2029				
	2/22/2019 RSU						90,218	$ 1,236,889		
	Awards with performance measures									
	5/18/2015 Tier II	—	—	1,017,239	$ 6.56	5/18/2025				
	5/18/2015 Tier III	—	—	1,017,239	$ 6.56	5/18/2025				
	5/18/2015 Tier IV	—	—	1,017,239	$ 9.84	5/18/2025				
	5/2/2017 Tier II	—	—	135,496	$ 7.87	5/2/2027				
	5/2/2017 Tier III	—	—	135,496	$ 7.87	5/2/2027				
	5/2/2017 Tier IV	—	—	135,496	$ 11.80	5/2/2027				
	2/22/2019 PRSU								47,405	$ 649,923

(*) Gates has a number of awards issued under the 2014 Omaha Topco Ltd. Stock Incentive Plan, which was assumed by the Company and renamed the Gates Industrial Corporation plc Stock Incentive Plan in connection with our initial public offering in January 2018. No new awards have been granted under this plan since 2017. The options are split equally into four tiers, each with specific vesting conditions. Tier I options vest evenly over 5 years from the grant date, subject to the participant continuing to provide service to Gates on the vesting date. Tier II, III and IV options vest on achievement of specified investment returns by Blackstone at the time of a defined liquidity event, which is also subject to the participant's continued provision of service to Gates on the vesting date. The performance conditions associated with Tiers II, III and IV must be achieved on or prior to July 3, 2022 in order for vesting to occur. All the options expire ten years after the date of grant.

(1) Represents Tier I time-vesting stock options, awarded to the Executive Director in his capacity as a director of a former parent of the group, Omaha Topco Limited.

(2) Represents Tier II, III and IV exit-vesting stock options, awarded to the Executive Director in his capacity as a director of a former parent of the group, Omaha Topco Limited.

(3) RSUs vest in substantially equal annual installments on each of the first, second and third anniversaries of the grant date.

(4) Reflects the aggregate market value of the unvested RSUs, based on a price of $13.71 per ordinary share, which was the share price of the Company's ordinary shares on December 27, 2019, the last trading day of the fiscal year.

(5) Represents time-based stock options granted in 2019 under our 2018 Omnibus Incentive Plan. These options vest in substantially equal annual installments on the first three anniversaries of the grant date.

(6) Represents premium-priced time-based stock options granted in 2019 under our 2018 Omnibus Incentive Plan. These premium-priced options vest on the third, fourth and fifth anniversary of the grant date.

(7) The PRSUs vest upon completion of the three year performance period, with 50% subject to attainment of certain levels of a defined Adjusted ROIC measure and 50% subject to attainment of a certain defined Relative TSR. The amounts shown in this column represent threshold payout shares of the outstanding PRSUs assuming both an attainment of 0.1% above threshold for the Adjusted ROIC measure and a threshold 50% payout under the TSR measure. The number of shares ultimately issued, which could be zero or greater than the number presented above, will be based on achieving specific performance conditions. Please refer to "Elements of Compensation— Long-Term Incentive" above.

(8) Represents the aggregate market value of the threshold payout shares of the unvested PRSUs, based on a price of $13.71 per ordinary share, which was the share price of the Company's ordinary shares on December 27, 2019, the last trading day of the fiscal year.

2019 Option Exercises and Stock Vested

Our Executive Director did not exercise any options, nor did any stock awards held by him vest, during financial year 2019.

Single Figure Total Remuneration Table for Non-Executive Directors (Audited)

The following table provides the compensation earned by our Non-Executive Directors who served during financial year 2019.

Name	Year	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	Total ($)
J. Ireland	2019	$ 125,000	$ 77,606	$ 202,606
	2018	$ 20,833	—	$ 20,833
T. Klebe[3]	2019	$ 150,000	$ 2,557	$ 152,557
	2018	$ 138,049	—	$ 138,049
S. Mains[4]	2019	$ 104,167	—	$ 104,167
	2018	—	—	—
K. Ovelmen[5]	2019	$ 20,833	—	$ 20,833
	2018	$ 115,041	—	$ 115,041
J. Plant[5]	2019	$ 70,742	$ 149,956	$ 220,698
	2018	$ 115,041	—	$ 115,041
D. Calhoun	2019	—	—	—
	2018	—	—	—
J. Kahr	2019	—	—	—
	2018	—	—	—
N. Simpkins	2019	—	—	—
	2018	—	—	—

(1) Represents director fees earned during financial year 2019. Directors who served on the Board for a portion of the financial year received a pro-rated amount of the annual cash retainer, which was $125,000.

(2) The value of the stock awards vested during the period is based on the closing share price of the Company's ordinary shares on the trading day prior to the vesting date, minus par value. Certain options held by our Non-Executive Directors, as set out in the "*Outstanding Equity Awards for certain Non-Executive Directors at December 28, 2019*" section below, vested during financial year 2019, but were awarded in their capacity as directors of a former parent of the group, Omaha Topco Limited, and are therefore not included in this table.

(3) Represents the annual cash retainer of $125,000 plus an additional $25,000 for Mr. Klebe's service as chair of the Audit Committee. Mr. Klebe elected to defer $135,000 of the fees earned in cash pursuant to the Supplemental Retirement Plan.

(4) Ms. Mains was appointed to our Board effective February 28, 2019, and the amount reported represents her fee for her services in 2019 since appointment.

(5) Ms. Ovelmen resigned effective March 1, 2019 and Mr. Plant resigned effective July 23, 2019, and the amount reported represents fees for services in 2019 prior to resignation.

Outstanding Equity Awards for certain Non-Executive Directors at December 28, 2019 (Audited)

The following table provides information regarding outstanding equity awards held by current Non-Executive Directors Mr. Ireland, Mr. Klebe and Ms. Mains, and former Non-Executive Directors Mr. Plant as of December 28, 2019. Ms. Ovelmen forfeited her outstanding equity awards upon her resignation effective March 1, 2019. None of the other Non-Executive Directors held any outstanding equity awards as of December 28, 2019.

Name	Grant Date	Option Awards (*) Number of securities underlying unexercised options (#) exercisable[1]	Number of securities underlying unexercised options (#) unexercisable[2]	Equity Incentive Plan Awards: Number of securities underlying unexercised unearned options (#)	Option Exercise Price ($)	Option Expiration Date	Number of shares or units of stock that have not vested (#)[3]	Market value of shares or units of stock that have not vested ($)[4]
T. Klebe	5/12/2016	45,775	30,518	—	$ 6.56	5/12/2026		
	3/9/2018	—	—				5,474	$ 75,049
	2/22/2019	—	—				6,075	$ 83,288
J. Ireland	2/22/2019	—	—	—			6,075	$ 83,288
S. Mains	2/28/2019						6,211	$ 85,153
J. Plant	5/14/2015	76,293	—	—	$ 6.56	1/5/2025		

(*) Gates has a number of awards issued under the 2014 Omaha Topco Ltd. Stock Incentive Plan, which was assumed by the Company and renamed the Gates Industrial Corporation plc Stock Incentive Plan in connection with our initial public offering in January 2018. No new awards have been granted under this plan since 2017. The options are split equally into four tiers, each with specific vesting conditions. Tier I options vest evenly over 5 years from the grant date, subject to the participant continuing to provide service to Gates on the vesting date. Tier II, III and IV options vest on achievement of specified investment returns by Blackstone at the time of a defined liquidity event, which is also subject to the participant's continued provision of service to Gates on the vesting date. The performance conditions associated with Tiers II, III and IV must be achieved on or prior to July 3, 2022 in order for vesting to occur. All the options expire ten years after the date of grant.

(1) Represents vested time-based stock options, awarded to the Non-Executive Directors in their capacity as directors of a former parent of the group, Omaha Topco Limited.

(2) Represents unvested time-based stock options, awarded to the Non-Executive Directors in their capacity as directors of a former parent of the group, Omaha Topco Limited.

(3) Represents unvested time-based RSUs that vest on the first anniversary of the grant date.

(4) Reflects the aggregate market value of the unvested RSUs, based on a price of $13.71 per ordinary share, which was the share price of the Company's ordinary shares on December 27, 2019, the last trading day of the fiscal year.

2019 Option Exercises and Stock Vested for certain Non-Executive Directors

The table below sets forth certain information concerning each exercise of options and stock vesting events for our Non-Executive Directors during financial year 2019.

Name	Option Awards # of Shares Acquired on Exercise (#)	Option Awards Value Realized on Exercise ($)	Stock Awards # of Shares or Units Acquired on Vesting (#)	Stock Awards Value Realized on Vesting ($)[1]
J. Ireland	—	—	6,451	$ 77,606
T. Klebe	—	—	169	$ 2,557
J. Plant	—	—	11,718	$ 149,956

(1) Based on the closing share price of the Company's ordinary shares on the trading day prior to the vesting date, minus par value.

Director Pension Scheme

No director who served during the year ended December 28, 2019 has any prospective entitlement to a defined benefit pension or a cash balance benefit arrangement (as defined in s.152, Finance Act 2004).

Scheme interests awarded during financial year 2019 (Audited)

Please refer to the following sub-headings in the "*Notes to future policy table*" section of the Directors' Remuneration Policy for a description of the scheme interests granted to our Executive Director: (i) "*Annual Plan*"; (ii) "*Discretionary Bonuses*"; and (iii) "*Long-Term Incentive*". In addition, please refer to the following sub-headings of this Directors' Remuneration Report: (i) *2019 Grants of Plan-Based Awards*; and (ii) *2019 Grants of Plan-Based Awards Table.*

For financial year 2019, the annual compensation package for the Non-Executive Directors (excluding the Sponsor-affiliated Directors) consists partly of $100,000 in value of restricted stock units (payable annually and rounded down to the nearest whole share). Restricted stock units vest in full on the first anniversary of the grant date. Please refer to the section entitled "*2019 Option Exercised and stock vested for certain Non-Executive Directors*" for further information.

Payments to Past Directors and Payments for Loss of Office (Audited)

There were no payments made to past Directors and no payments to Directors for loss of office during financial year 2019.

Director Shareholdings and Share Ownership Guidelines (Audited)

We have adopted an executive stock ownership program for our Executive Director. As of December 28, 2019 our Executive Director was expected to own our ordinary shares with a market value equal to at least six times his base salary. This target has been met. If our Executive Director falls below the threshold, he will be required to retain 50% of stock acquired through the exercise or vesting of equity awards made by the Company.

We have adopted share ownership guidelines for our Non-Executive, non-Sponsor affiliated Directors in order to better align our eligible directors' financial interests with those of our shareholders by requiring such directors to own a minimum level of our shares. Each of our Non-Executive, non-Sponsor affiliated Directors is required to own shares with a market value equal to four times his or her annual cash retainer. As of December 28, 2019, Mr. Klebe and Mr. Plant held shares in excess of this target. Given their recent appointments to the Board, Mr. Ireland and Ms. Mains have not yet met this goal. Any such director who does not meet the threshold is required to retain 50% of shares acquired through the exercise or vesting of equity awards made by the Company.

The table below sets out the number of shares held by the Executive Director and each Non-Executive Director as of December 28, 2019.

Name of Director	Number of shares held in Company as of December 28, 2019
Executive Director	
I. Jurek	174,118
Non-Executive Directors	
J. Ireland	6,451
T. Klebe	62,862
S. Mains	—
J. Plant	57,493
Non-Executive Directors; Sponsor-affiliated Directors	
D. Calhoun	—
J. Kahr	—
N. Simpkins	—

Please also refer to the "*Outstanding Equity Awards at December 28, 2019*" and "*Outstanding Equity Awards for certain Non-Executive Directors at December 28, 2019*" sections above for information regarding outstanding equity awards held by our Executive Director and Non-Executive Directors as of December 28, 2019.

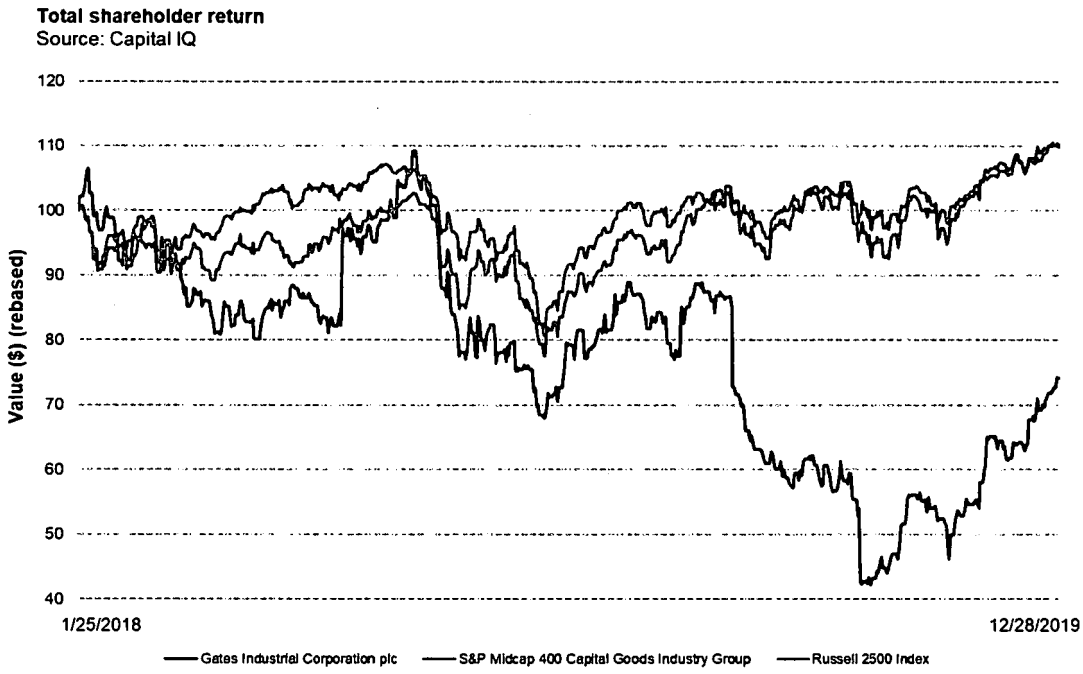
Performance graph and table

Executive Director Remuneration

	2019	2018
Total remuneration	$ 1,154,144	$ 2,332,485
Annual bonus as a percentage of maximum	0 %	65 %
Share vesting	—	—

Performance Graph

The below graph shows the value, by December 28, 2019, of $100 invested in Gates Industrial Corporation plc on December 30, 2018, compared with the value of $100 invested in each of the S&P Midcap 400 Capital Goods Industry Group index and the Russell 2500 index on a daily basis. The S&P Midcap 400 Capital Goods Industry Group index was selected as it is used by the Company as part of the long-term incentive program (one of the performance measures for our PRSUs). The performance graph is based on historical results and is not intended to suggest future performance.



This graph shows the value, by 28 December 2019, of $100 invested in Gates Industrial Corporation plc on 25 January 2018, at the IPO price of $19, compared with the value of $100 invested in the S&P Midcap 400 Capital Goods Industry Group Index and Russell 2500 Index on a daily basis.

Percentage change in the Executive Director's compensation

The following table shows the percentage change in salary, taxable benefits and annual performance bonus awards for our Executive Officer and, as stated in the note to the table, our corporate employees (excluding our Executive Director) located in our Denver corporate office and Denver area customer solutions center from the 2018 qualifying services period to the financial year 2019.

Percent Change in Compensation of Executive Director Compared with Employees

	Chief Executive Officer	Employees[1]
Salary	5 %	2 %
Taxable benefits	(32)%	7 %
Annual performance bonus awards	(100)%	(100)%

(1) Due to the complexity of our global operations with employees in multiple countries with different currencies, costs of living and work cultures, we selected our corporate employees based in our Denver corporate office and Denver area customer solutions center as the comparator group for the above table. This group of employees is considered an appropriate comparator, as they are compensated in accordance with U.S. customs and standards and participate in similar annual performance award and benefit programs as our Executive Director who is based in Denver, Colorado. The percentage changes were determined for salary and taxable benefits for our corporate employees by calculating the average amount of salary and taxable benefits per average employee by dividing the total salary and total taxable benefits by the average number of corporate employees for each fiscal year (without adjustment for leavers and joiners). Note that if we take into account adjustments for leavers and joiners, the salary increase for employees would have been 5.9%. Taxable benefits included, but were not limited to: gym reimbursements, awards not included in the annual bonus policy, wellness incentives, and relocation allowances. To determine the percentage change for the annual performance bonus award, we calculated the average award earned per corporate employee by dividing the total award amount for our annual performance based incentive policy, Gates Global Bonus Policy, by the number of employees that were eligible for a Gates Global Bonus Policy award for each fiscal year.

Relative Importance of Spend on Pay

The table below sets out the remuneration the Company paid to its employees and distributions made to its shareholders in the financial year 2019 and in the 2018 qualifying services period.

	2019 financial year ($ millions)	2018 qualifying services period ($ millions)
Employee remuneration	728.6	697.9
Dividends	—	—
Share buyback	—	—

Statement of implementation of remuneration policy in 2020

For financial year 2020, the Compensation Committee intends to provide remuneration in accordance with our previously approved Directors' Remuneration Policy, which took effect on May 31, 2019.

Executive Director

2020 Long-Term Incentive. In February 2020, the Compensation Committee recommended and the Board approved a new award (the "**2020 LTI**") for financial year 2020 under the plan for our Executive Director. The 2020 LTI is comprised of 50% PRSUs, 25% RSUs and 25% Options. Each of the RSUs and options will vest in equal annual installments on the first three anniversaries of the grant date, subject to the Executive Director's continued employment through the vesting date. The PRSUs will vest upon completion of the three year performance period and will be paid out after certification of results by the Compensation Committee. For 2020 PRSUs, the Board determined that the PRSUs shall provide that 50% of the award will generally vest if the Company achieves a certain level of Adjusted ROIC and the remaining 50% of the PRSUs will generally vest if the Company achieves certain Relative TSR goals, in each case, measured over a three year performance period. The total number of PRSUs that vest at the end of the performance period will range from 0% to 200% of the target as determined by measuring actual performance over the performance period for Adjusted ROIC and Relative TSR against the performance goals based on a pre-established scale. The target total grant date fair value for our Executive Director's award was $4,635,000 under the 2020 LTI plan. The award was made based upon internal pay fairness factors, our Executive Director's compensation mix and his total direct compensation. The number of target PRSUs was calculated on the date of grant, February 21, 2020, based on that day's closing price of Gates ordinary shares on the New York Stock Exchange.

The performance period applying to the PRSUs began on December 29, 2019 and will end on December 31, 2022. The performance results will be measured against the specified cumulative Adjusted ROIC and Relative TSR through the period. The target levels for performance based compensation have been omitted from the directors' remuneration report as such targets are considered commercially sensitive. The target levels will be disclosed in the directors' remuneration report after the completion of the applicable performance period.

2020 Annual Incentive. In February 2020, the Compensation Committee determined that the correct measure for the annual bonus scheme for financial year 2020 should be Adjusted EBITDA (50%), Free Cash Flow (30%) and Revenue (20%) as the financial performance measures for 2020 ("**Performance Factors**"). The Compensation Committee determined that these Performance Factors are critical indicators of the Company's performance for 2020 and, when combined, contribute to sustainable growth. The Compensation Committee set the minimum achievement threshold at 95% of the Performance Factors to achieve a 50% payout of the annual bonus and 105% to achieve a 150% payout of the annual bonus. If achievement with respect to any Performance Factor falls between the threshold and target, or between the target and maximum, earned award amounts for that particular Performance Factor will be interpolated on a straight-line mathematical basis (and rounded to the nearest whole number). The Executive Director's target bonus in 2020 is $1,545,000.

2020 Salary. In February 2020, the Compensation Committee increased our Executive Director's base salary by 3%, to $1,030,000.

For additional information on our Long-Term Incentive, Annual Incentive and Base Salary, please see *Elements of Compensation* in our proxy statement. Other than as stated above, no other changes are anticipated in 2020 with respect to the compensation of our Executive Director.

Non-Executive Directors

2020 Remuneration. The compensation program for our other Non-Executive Directors will remain the same in 2020, with an adjustment to the cash and equity mix to be more reflective of the market. In October 2019, the Board approved an annual compensation package of $225,000 for these Non-Executive Directors in 2020, which is consistent with 2019 and will be allocated with approximately 45% as a cash retainer and 55% as an equity grant of time-based restricted stock units vesting in one year. On February 21, 2020, the Board approved the 2020 annual equity grant for the Non-Executive Directors. The number of RSUs was calculated on that date, based on the closing price of Gates ordinary shares on the New York Stock Exchange.

Consideration by the Directors of matters relating to Directors' compensation

The Compensation Committee provides assistance to our Board for oversight of the compensation program for our Executive Director. Our Board has historically taken into account multiple factors, such as considering the responsibilities, performance, contributions and experience of our Executive Director and compensation in relation to other employees and other roles. The Compensation Committee annually reviews our Executive Director's performance, base salary, annual incentive target opportunity and outstanding long-term incentive awards and approves, or recommends to the Board for approval, any changes to the Executive Director's compensation package in light of such review. Our Executive Director does not participate in deliberations regarding his own compensation.

Pay recommendations for our high level executive officers, including our Executive Director, are made by the Compensation Committee at its second scheduled meeting of the fiscal year, typically held in February after we report our fourth quarter and year-end financial results for the preceding fiscal year (the "**February meeting**"). This timing allows the Compensation Committee to have a complete financial performance picture prior to making compensation decisions.

Compensation decisions with respect to prior year performance, as well as annual equity awards and target performance levels under our incentive plans for the current year are typically made at this February meeting. Annual equity awards to our executive officers, including our Executive Director, are recommended by the Compensation Committee at this meeting and reviewed by the Board and, if approved by the Board, are dated on the date of such Board approval. The exception is grants to executives who are promoted or hired from outside the Company during the year. These executives may receive compensation changes or equity grants effective or dated, as applicable, as of the date of their promotion, hiring date, or other Board approval date.

Compensation Consultant. The Compensation Committee retains an independent compensation consultant (the "**Consultant**") to support the oversight and management of our executive compensation program. The Consultant has not provided the Company with any other services. The Compensation Committee retains sole authority to hire or terminate the Consultant, approve its compensation, determine the nature and scope of services, and evaluate performance. A representative of the Consultant attends Compensation Committee meetings, as requested, and communicates with the Compensation Committee Chair between meetings. The Compensation Committee makes all final decisions. The Consultant's specific roles include, but are not limited to:

- advising the Compensation Committee on executive compensation trends and regulatory developments;

- providing a total compensation study for executives against the companies in our peer group and recommendations for executive pay;
- providing advice to the Compensation Committee on governance best practices, as well as any other areas of concern or risk;
- serving as a resource to the Compensation Committee Chair for meeting agendas and supporting materials in advance of each meeting;
- reviewing and commenting on proxy disclosure items, including the CD&A;
- performing an annual compensation risk assessment;
- advising the Compensation Committee on management's pay recommendations; and
- from time to time, reviewing and providing compensation recommendations for non-employee directors to the Nominating and Governance Committee.

The aggregate fees paid to the Consultant and its affiliates for their work during financial year 2019 were approximately $185,000. An additional approximately $10,000 was paid to the Consultant and its affiliates for other services. No other fees were paid to the consultant or its affiliates.

The Compensation Committee has assessed the independence of the Consultant as required by the New York Stock Exchange rules. The Compensation Committee reviewed its relationship with the Consultant and considered all relevant factors, including those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Securities Exchange Act of 1934, as amended from time to time. Based on this review, the Compensation Committee concluded that the Consultant is independent and there are no conflicts of interest raised by the work performed by the Consultant.

Peer Group. The Compensation Committee, with the help of its Consultant, conducts an annual review and evaluation of executive and director compensation in comparison to an industry peer group. For fiscal 2019, the Consultant developed, and the Compensation Committee approved, a peer group of sixteen companies based on consideration of the following criteria:

- publicly-traded companies within similar GICS code classifications;
- peer companies used by the potential peer companies within the similar GICS codes;
- peer companies used by proxy advisory firm Institutional Shareholder Services Inc. ("ISS");
- companies with annual revenues of approximately 0.4x to 3x Gates' annual revenues; and
- companies with enterprise values of approximately 0.2x to 5x Gates' expected total enterprise value.

The peer group used to assist with 2019 compensation decisions consisted of the following companies:

Peer Group[1]

AMTEK, Inc.	Lincoln Electric Holdings, Inc.
Colfax Corporation	Nordson Corporation
Crane Co.*	Pentair plc*
Donaldson Company, Inc.	Regal Beloit Corporation
Flowserve Corporation	Rexnord Corporation
Gardner Denver Holdings, Inc.*	SPX Corporation
Graco Inc.	The Timken Company
IDEX Corporation	Xylem Inc.*

(1) New peer companies are represented by a "*" and were added to assist with 2019 compensation decisions. These new peer companies have similar market capitalization and industry focus to the Company. Actuant Corporation, Franklin Electric, and EnPro Industries were removed from the peer group for 2019 to position the Company's annual revenues closer to the peer median.

The Compensation Committee uses competitive compensation data from the annual total compensation study of peer companies to inform its decisions about overall compensation opportunities and specific compensation elements. Additionally, the Compensation Committee uses multiple reference points when establishing targeted compensation levels. The Compensation Committee does not benchmark specific compensation elements or total compensation to any specific percentile relative to the peer companies or the broader U.S. market. Instead, the Compensation Committee applies judgment and discretion in establishing targeted pay levels, taking into account not only competitive market data, but also factors such as Company, business and individual performance, scope of responsibility, critical needs and skill sets, leadership potential and succession planning.

Consideration of Shareholder Views

At the 2019 AGM, our shareholders approved the directors' remuneration policy (as required under the Companies Act), our annual remuneration report (as required under the Companies Act) and the compensation of our Named Executive Officers, which includes our Executive Director (on an advisory basis, pursuant to applicable SEC regulations).

The voting results on the compensation matters presented at the 2019 AGM were:

Resolution: To approve, on an advisory basis, named executive officer compensation:

Votes	% of Total	Votes Against	% of Total	Votes	% of Total
281,805,904	99.26%	434,392	0.15%	138,920	0.05%

Resolution: To approve, on an advisory basis, on an advisory basis, the Company's directors' remuneration report (excluding the Company's directors' remuneration policy) in accordance with the requirements of the Companies Act.

Votes	% of Total	Votes Against	% of Total	Votes Abstain	% of Total
281,813,288	99.26%	419,698	0.14%	146,230	0.05%

Resolution: To approve the Directors' Remuneration Policy in accordance with the requirements of the Companies Act:

Votes	% of Total	Votes Against	% of Total	Votes Abstain	% of Total
273,918,265	96.48%	8,314,901	2.93%	146,050	0.05%

In light of the voting results on these resolutions and based on the Company's compensation philosophy and objectives, the Compensation Committee is maintaining our overall compensation program for our executive director and our non-executive directors, with certain modifications as described in our CD&A.

The Directors' Remuneration Report was approved by the Board and authorized for issue on May 6, 2020. It was signed on its behalf by:

Ivo Jurek
Director and Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATES INDUSTRIAL CORPORATION PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Gates Industrial Corporation plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 28 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in conformity with accounting principles generally accepted in the United States of America;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of operations;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated statement of cash flows;
- the consolidated and parent company statements of shareholders' equity; and
- the related notes 1 to 26 in the consolidated financial statements and the related notes 1 to 9 in the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law for the United Kingdom and applicable accounting principles generally accepted in the United States of America. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. 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 Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Income taxes – Deferred tax asset arising from the reversal of historic valuation allowance in Luxembourg* • *Income taxes – Uncertain tax positions in relation to the implementation of the Group's European corporate centre which now centrally manages the European regional operations from Luxembourg* Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was $20.0 million (2018 - $25.0 million) which was determined on the basis of a combination of Adjusted EBITDA and Income from continuing operations before tax.
Scoping	The scope of our audit focused on the US component, which was subject to a full scope audit, together with other non-significant components which were subject to audits of specified account balances and which were selected in order to provide a scope that was a sufficient basis for our audit opinion; together, these components accounted for 72.6% of Group revenue and 84.8% of Adjusted EBITDA, adjusted to include share-based compensation and fees charged by affiliates of the Blackstone Group Inc.. In the prior year, the China and Belgium components were also subject to full scope audits; in the current year, we determined that our overall scope was sufficient with these components classified as non-significant and were subject to audits of specified account balances.
Significant changes in our approach	Both key audit matters we report on were newly identified for the current year, following the finalization of the legal agreements and activation of the transactional flows arising from the implementation of the Group's European corporate centre which now centrally manages the Group's European regional operations from Luxembourg. In the prior year we identified a key audit matter relating to the impact of changes to the internal financing of Group's subsidiaries on the accounting for income taxes. Because this event took place and was concluded on in 2018, it was not a key audit matter in the current year. In the prior year we also identified a key audit matter relating to US tax reform. This is no longer assessed to be a key audit matter as the impact of the relevant legislation has not been significant to the current year financial statements and the Company's determination of the impact of these provisions took place in the prior year.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:	We have nothing to report in respect of these matters.
• the directors' use of the going concern basis of accounting in 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 Group's or the parent 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.	

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Deferred tax asset arising from the reversal of historic valuation allowance in Luxembourg

Key audit matter description	During 2019 the Group implemented a European corporate centre to centrally manage its European regional operations, based in Luxembourg. With the implementation of the European corporate centre, the Luxembourg subsidiary will act as the principal entity for the region. This resulted in changes to transactional flows and intercompany pricing between the Luxembourg subsidiary and the different European subsidiaries involved. As a consequence of these changes, the Luxembourg subsidiary reported income before tax for the year ended 28 December 2019 and is forecast by the Group to continue to do so. Management analysed the positive and negative evidence associated with the valuation allowance recorded against indefinite-lived net operating loss carry forwards recorded in Luxembourg, and determined it was appropriate to release the valuation allowance against those net operating loss carry forwards in 2019, which gave rise to a deferred tax credit of $579 million being recognized in the consolidated statement of operations. We identified management's evaluation that it is more likely than not that sufficient taxable income will be generated in Luxembourg in the future as a result of the implementation of the European corporate centre as a key audit matter because of the significant judgments relating to transfer pricing rules and estimates management made related to forecast future taxable income. This

	required a high degree of auditor judgment and an increased extent of effort, including the need to involve income tax specialists, including international tax and transfer pricing specialists, when performing audit procedures to evaluate the sufficiency of future taxable income and the timing of the release of the Luxembourg valuation allowance. The Group recognised a deferred tax asset in relation to Luxembourg net operating losses, amounting to $573.4 million at 28 December 2019. The Group's accounting policy in relation to income taxes is set out on pages 87 to 88. The income taxes note to the financial statements is on pages 96 to 100. Management has highlighted income taxes as a critical accounting estimate and judgement on page 37.
How the scope of our audit responded to the key audit matter	In order to address this key audit matter, our audit procedures included: • Obtaining an understanding of relevant controls over management's deferred tax and related valuation allowance assessment for its Luxembourg component. • Assessing the historical trading performance from 2017 and 2018, the 2019 budget, and 2020 and 2021 forecasts, as if the implementation of the European corporate centre was in place for all periods, so as to assess past and future performance and to assess whether it is more likely than not that the Group's Luxembourg operations will generate sufficient future taxable profits over the long term to utilise the net operating losses carried forward in Luxembourg. • Reading management's documentation on the basis for the valuation allowance release that occurred during 2019, and evaluating whether the release of the valuation allowance is appropriate. • Consulting with our specialists to evaluate the period over which future taxable income should be included in management's evaluation of future taxable income and whether 2019 is the appropriate timing for the release of the valuation allowance. • With the assistance of our transfer pricing specialists, testing the transfer pricing conclusion regarding the acceptable rate of return used in management's forecasts of taxable income and evaluated a variety of scenarios forecasting the utilization of the Luxembourg net operating losses.
Key observations	Based on the audit procedures performed, we are satisfied that the deferred tax asset arising from the release of the valuation allowance on the net operating losses carried forward in the Group's Luxembourg component and related disclosures are not materially misstated.

5.2. Uncertain tax position in relation to the implementation of the Group's European corporate centre which now centrally manages the Group's European regional operations from Luxembourg

Key audit matter description	As a result of the implementation of the European corporate centre, management considered the tax implications due to the business changes which have resulted in the Luxembourg subsidiary now acting as the principal entity for the European region, including the risk that the relevant tax authorities for those subsidiaries impacted by this change may determine that additional tax is due in the relevant jurisdiction compared to the income tax determined by management to be payable. Given the multiple jurisdictions in which the Group operates and files its tax returns and the complexity of the tax laws and regulations in those jurisdictions, performing procedures to audit the income tax implications involved a high degree of auditor judgment and an increased extent of effort, including involvement of our income tax specialists and transfer pricing specialists. Management recorded an uncertain tax position ("UTP"), amounting to $59.8 million at 28 December 2019 in respect of its assessment of this matter. The Group's accounting policy in relation to income taxes is set out on pages 87 to 88. The income taxes note to the financial statements is on pages 96 to 100. Management has highlighted income taxes as a critical accounting estimate and judgement on page 37. This is a new key audit matter in the current year and is included in this report this year, due to the fact that it arose from the implementation of the European corporate centre that took place during the current year.
How the scope of our audit responded to the key audit matter	In order to address this key audit matter, our audit procedures included: • Obtaining an understanding of relevant controls over management's income tax assessment from the impact of the implementation of the European corporate centre for potential additional tax liabilities arising, including consideration of transfer pricing legislation. • Obtaining an understanding of the overall goals of the implementation of the European corporate centre, as well as the tax assessment and jurisdictional impacts. • Auditing management's computations of the income tax charge recorded as part of the provision for uncertain tax positions in the financial statements; this included assessing the benchmarking studies commissioned by management for the purposes of determining the selected rates of return for the EMEA operations. • Reviewing management's OECD (Organization for Economic Cooperation and Development) documentation in order to assess whether identified business risks were transferred from the affected European subsidiaries to the European corporate centre in Luxembourg, since this is relevant in assessing the likelihood of the relevant tax authorities determining whether any additional tax is due. • Obtaining and evaluating management's documentation of its organizational structure, setting out which personnel have the authority to perform key management functions for the European operations, since

	this is relevant in determining whether there has been a transfer of business risks as a result of the implementation of the European corporate centre.
Key observations	Based on the audit procedures performed, we are satisfied that the estimated provision in relation to income tax charges arising from the implementation of the European corporate centre and related disclosures are not materially misstated.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Materiality	$20.0 million (2018: $25.0 million)	$18.0 million (2018: $22.5 million)
Basis for determining materiality	We determined materiality considering both Income from Continuing Operations Before Taxes and Adjusted EBITDA, of which it represents 10.1% and 3.3% respectively. Adjusted EBITDA is calculated as operating income from continuing operations before certain items, as set out on page 91. Adjusted EBITDA is reconciled to Net Income from Continuing Operations Before Taxes in note 5D to the consolidated financial statements on page 92. In setting our materiality, we also considered the impact of share-based compensation and fees charged by affiliates of the Blackstone Group Inc. who are related parties, on Adjusted EBITDA, as we consider these to be a recurring part of the Group's total costs.	In establishing parent company materiality, we used net assets as the key input as the Company acts as an investment holding company rather than a profit-oriented trading company. However, we have capped parent company materiality at 90% of Group materiality.
Rationale for the benchmark applied	Profit related measures are the most relevant to the users of the financial statements. We considered Income from Continuing Operations Before Taxes, given that the Group has debt financing and Adjusted EBITDA, since this is broadly representative of the underlying performance of the business.	A net assets benchmark was considered appropriate in determining materiality given that the parent company's primary function is to hold the investments in the Company's subsidiaries.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit. In determining performance materiality, we considered the following factors:

- Our risk assessment, including the quality of the control environment; and
- Our past audit experience of the Company, in which we identified a very low number and value of corrected and uncorrected misstatements in the prior period audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $1.0 million (2018: $1.25 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The Group has operations across the globe, but principally operates in North America, Western and Central Europe, China and South East Asia, with its corporate headquarters based in Denver, Colorado in the United States.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls on an entity level basis and assessing the components against the risk of material misstatement at the Group level. We have also considered the quantum of the financial statement balances and total contribution to the Group. In performing our assessment we have considered the geographical spread of the Group and any risks presented within each region.

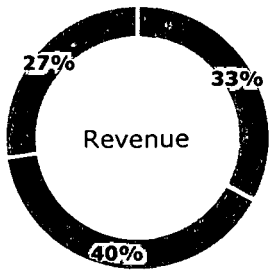
Based on that assessment we focused our scope on the US component, which was subject to a full scope audit, together with certain other components which were subject to audits of specified account balances; together, these accounted for 72.6% of Group revenue and 84.8% of adjusted EBITDA including share-based compensation and fees charged by affiliates of the Blackstone Group Inc. who are related parties. Our audit work and specified procedures at these entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged between $4.8 million and $11.2 million.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit or audit of specified balances.

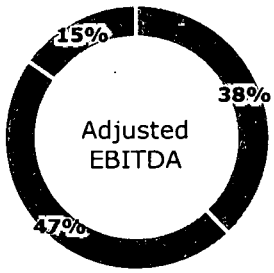
7.2. Working with other auditors

The Group audit team instructed component auditors and conducted team briefings with them at the planning phase of the audit; the engagement partner and manager visited the US component pre year-end as part of our planning activities and post year-end during the audit field work.

The engagement partner and manager visited the US component in November 2019 and January 2020. The engagement partner and/or manager attended by conference call the closing meetings held with the other component auditors. At these visits and meetings the findings reported to the Group team were discussed in more detail, with the Group team giving direction for further work, if required.



- Full audit scope
- Specified audit procedures
- Review at group level



- Full audit scope
- Specified audit procedures
- Review at group level

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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 respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

11. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

12. Matters on which we are required to report by exception

12.1. Adequacy of explanations received and accounting records

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

12.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13. 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.

Hadleigh Shekle FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

Date: 07 May 2020

Gates Industrial Corporation plc

Consolidated Statements of Operations

(dollars in millions, except per share amounts)	Notes	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Net sales	5	$ 3,087.1	$ 3,347.6	$ 3,041.7
Cost of sales		1,944.6	2,017.0	1,823.7
Gross profit		**1,142.5**	**1,330.6**	**1,218.0**
Selling, general and administrative expenses		777.3	805.8	777.1
Transaction-related expenses		2.6	6.7	18.1
Impairment of intangibles and other assets		0.7	0.6	2.8
Restructuring expenses	8	6.0	6.4	17.4
Other operating expenses (income)		9.1	14.3	(0.3)
Operating income from continuing operations		**346.8**	**496.8**	**402.9**
Interest expense		157.8	175.9	234.6
Other (income) expenses		(9.8)	17.4	58.8
Income from continuing operations before taxes		**198.8**	**303.5**	**109.5**
Income tax (benefit) expense	9	(495.9)	31.8	(72.5)
Net income from continuing operations		**694.7**	**271.7**	**182.0**
Loss (income) on disposal of discontinued operations, net of tax, respectively, of $0, $0 and $0		0.6	0.6	(0.7)
Net income		**694.1**	**271.1**	**182.7**
Less: non-controlling interests		4.0	25.8	31.4
Net income attributable to shareholders		**$ 690.1**	**$ 245.3**	**$ 151.3**
Earnings per share				
Basic				
Earnings per share from continuing operations		$ 2.38	$ 0.86	$ 0.62
Earnings per share from discontinued operations		—	—	—
Earnings per share	10	**$ 2.38**	**$ 0.86**	**$ 0.62**
Diluted				
Earnings per share from continuing operations		$ 2.37	$ 0.84	$ 0.60
Earnings per share from discontinued operations		—	—	—
Earnings per share	10	**$ 2.37**	**$ 0.84**	**$ 0.60**

The accompanying notes form an integral part of these consolidated financial statements.

Gates Industrial Corporation plc

Consolidated Statements of Comprehensive Income

(dollars in millions)	Notes	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Net income		**$ 694.1**	**$ 271.1**	**$ 182.7**
Other comprehensive (loss) income				
Foreign currency translation:				
—Net translation gain (loss) on foreign operations, net of tax (expense) benefit, respectively, of ($0.8), ($1.2), and $15.0		29.4	(134.9)	280.2
—Gain (loss) on net investment hedges, net of tax expense, respectively, of $0, $0 and $0		5.5	9.8	(109.4)
Total foreign currency translation movements		**34.9**	**(125.1)**	**170.8**
Cash flow hedges (Interest rate derivatives):				
—Loss arising in the period, net of tax benefit, respectively, of $4.5, $0 and $0	*16*	(27.2)	(4.5)	(2.0)
—Reclassification to net income, net of tax (expense) benefit, respectively, of ($0.2), $4.7 and ($2.0)	*16*	2.3	10.1	9.6
Total cash flow hedges movements		**(24.9)**	**5.6**	**7.6**
Available-for-sale investments:				
—Net unrealized loss, net of tax benefit, respectively, of $0, $0 and $0.1		—	—	(0.2)
Total available-for-sale investments:		**—**	**—**	**(0.2)**
Post-retirement benefits:				
—Current year actuarial movements, net of tax benefit (expense), respectively, of $2.8, $2.2 and ($5.4)	*20*	(16.7)	(5.3)	20.2
—Reclassification of prior year actuarial movements to net income, net of tax (expense) benefit, respectively, of ($0.2), $0.1 and $0	*20*	0.2	(0.5)	—
Total post-retirement benefit movements		**(16.5)**	**(5.8)**	**20.2**
Other comprehensive (loss) income		**(6.5)**	**(125.3)**	**198.4**
Comprehensive income for the period		**$ 687.6**	**$ 145.8**	**$ 381.1**
Comprehensive income attributable to shareholders:				
—Income arising from continuing operations		$ 686.6	$ 138.7	$ 319.1
—(Loss) income arising from discontinued operations		(0.6)	(0.6)	0.7
		686.0	**138.1**	**319.8**
Comprehensive income attributable to non-controlling interests		1.6	7.7	61.3
		$ 687.6	**$ 145.8**	**$ 381.1**

The accompanying notes form an integral part of these consolidated financial statements.

Gates Industrial Corporation plc

Consolidated Balance Sheets

(dollars in millions, except share numbers and per share amounts)	Notes	As of December 28, 2019	As of December 29, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 635.3	$ 423.4
Trade accounts receivable, net of allowances of $8.6 and $7.4		694.7	742.3
Inventories	*11*	475.1	537.6
Taxes receivable		22.1	7.2
Prepaid expenses and other assets		131.4	104.1
Total current assets		**1,958.6**	**1,814.6**
Non-current assets			
Property, plant and equipment, net	*12*	727.9	756.3
Goodwill	*13*	2,060.5	2,045.9
Pension surplus	*20*	38.1	52.6
Intangible assets, net	*14*	1,876.0	1,990.6
Operating lease right-of-use assets	*15*	123.0	—
Taxes receivable		23.0	27.9
Deferred income taxes		587.1	5.1
Other non-current assets		17.1	29.6
Total assets		**$ 7,411.3**	**$ 6,722.6**
Liabilities and equity			
Current liabilities			
Debt, current portion	*18*	$ 46.1	$ 51.6
Trade accounts payable		374.7	424.0
Taxes payable		48.5	19.2
Accrued expenses and other current liabilities	*19*	188.8	184.2
Total current liabilities		**658.1**	**679.0**
Non-current liabilities			
Debt, less current portion	*18*	2,912.3	2,953.4
Post-retirement benefit obligations	*20*	151.2	155.9
Lease liabilities	*15*	116.2	—
Taxes payable		108.8	81.9
Deferred income taxes		369.3	439.5
Other non-current liabilities	*19*	84.7	79.2
Total liabilities		**4,400.6**	**4,388.9**
Commitments and contingencies	*25*		
Shareholders' equity			
—Shares, par value of $0.01 each - authorized shares: 3,000,000,000; outstanding shares: 290,157,299 (December 29, 2018: authorized shares: 3,000,000,000; outstanding shares: 289,847,574)	*22*	2.9	2.9
—Additional paid-in capital		2,434.5	2,416.9
—Accumulated other comprehensive loss	*23*	(858.4)	(854.3)
—Retained earnings		1,072.0	381.9
Total shareholders' equity		**2,651.0**	**1,947.4**
Non-controlling interests		359.7	386.3
Total equity		**3,010.7**	**2,333.7**
Total liabilities and equity		**$ 7,411.3**	**$ 6,722.6**

The accompanying notes form an integral part of these consolidated financial statements.

The financial statements of Gates Industrial Corporation plc (registered number 10980824) were approved by the board of directors and authorized for issue on May 6, 2020. They were signed on its behalf by:

Ivo Jurek
Director and Chief Executive Officer

Gates Industrial Corporation plc

Consolidated Statements of Cash Flows

(dollars in millions)	Notes	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Cash flows from operating activities				
Net income		$ 694.1	$ 271.1	$ 182.7
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization		222.2	218.5	212.2
Non-cash currency transaction (gain) loss on debt and hedging instruments		(16.8)	(45.5)	57.4
Premium paid on redemption of long-term debt		—	27.0	—
Other net non-cash financing costs		27.4	65.6	47.6
Share-based compensation expense	*21*	15.0	6.0	5.4
Decrease in post-employment benefit obligations, net		(9.4)	(4.6)	(7.4)
Deferred income taxes	*9*	(648.4)	(64.9)	(162.8)
Other operating activities		6.0	4.8	5.5
Changes in operating assets and liabilities, net of effects of acquisitions:				
—Decrease (increase) in accounts receivable		41.8	(49.6)	(24.6)
—Decrease (increase) in inventories		65.1	(96.1)	(45.4)
—(Decrease) increase in accounts payable		(48.2)	42.1	49.9
—(Increase) decrease in prepaid expenses and other assets		(2.6)	(27.5)	2.3
—Increase (decrease) in taxes payable		46.2	(15.3)	6.5
—Decrease in other liabilities		(43.5)	(18.1)	(9.4)
Net cash provided by operations		**348.9**	**313.5**	**319.9**
Cash flows from investing activities				
Purchases of property, plant and equipment		(72.1)	(166.1)	(101.1)
Purchases of intangible assets		(11.0)	(16.6)	(10.0)
Cash paid under corporate-owned life insurance policies		(10.7)	(10.3)	(9.5)
Cash received under corporate-owned life insurance policies		12.0	2.9	3.1
Purchase of businesses, net of cash acquired	*4*	—	(50.9)	(110.7)
Other investing activities		3.8	(2.6)	1.2
Net cash used in investing activities		**(78.0)**	**(243.6)**	**(227.0)**
Cash flows from financing activities				
Issuance of shares, net of underwriting costs		1.8	799.7	0.6
Other offering costs		—	(8.6)	(2.3)
Buy-back of shares		—	—	(1.6)
Proceeds from long-term debt		568.0	—	644.7
Payments of long-term debt		(593.1)	(933.5)	(676.9)
Premium paid on redemption of long-term debt		—	(27.0)	—
Debt issuance costs paid		(8.3)	—	(18.8)
Dividends paid to non-controlling interests		(28.8)	(35.2)	(24.6)
Other financing activities		1.1	5.7	3.6
Net cash used in financing activities		**(59.3)**	**(198.9)**	**(75.3)**
Effect of exchange rate changes on cash and cash equivalents and restricted cash		0.4	(12.4)	19.6
Net increase (decrease) in cash and cash equivalents and restricted cash		**212.0**	**(141.4)**	**37.2**
Cash and cash equivalents and restricted cash at the beginning of the period		424.6	566.0	528.8

Cash and cash equivalents and restricted cash at the end of the period	**$ 636.6**	**$ 424.6**	**$ 566.0**
Supplemental schedule of cash flow information			
Interest paid, net of amount capitalized	$ 150.8	$ 157.9	$ 198.0
Income taxes paid, net	$ 108.8	$ 114.0	$ 84.8
Accrued capital expenditures	$ 1.8	$ 1.0	$ 1.7

The accompanying notes form an integral part of these consolidated financial statements.

Gates Industrial Corporation plc

Consolidated Statements of Shareholders' Equity

(dollars in millions)	Notes	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained (deficit) earnings	Total shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2016		$ 2.5	$ 1,619.0	$ (915.9)	$ (14.3)	$ 691.3	$ 377.1	$1,068.4
Net income		—	—	—	151.3	151.3	31.4	182.7
Other comprehensive income, net		—	—	168.5	—	168.5	29.9	198.4
Total comprehensive income		—	—	168.5	151.3	319.8	61.3	381.1
Other changes in equity:								
—Issuance of shares		—	0.6	—	—	0.6	—	0.6
—Repurchase of shares		—	(1.5)	—	(0.1)	(1.6)	—	(1.6)
—Share-based compensation		—	4.5	—	—	4.5	—	4.5
—Dividends paid to non-controlling interests		—	—	—	—	—	(24.6)	(24.6)
As of December 30, 2017		2.5	1,622.6	(747.4)	136.9	1,014.6	413.8	1,428.4
Net income		—	—	—	245.3	245.3	25.8	271.1
Other comprehensive loss, net		—	—	(106.9)	(0.3)	(107.2)	(18.1)	(125.3)
Total comprehensive (loss) income		—	—	(106.9)	245.0	138.1	7.7	145.8
Other changes in equity:								
—Issuance of shares		0.4	841.3	—	—	841.7	—	841.7
—Cost of shares issued		—	(53.0)	—	—	(53.0)	—	(53.0)
—Share-based compensation		—	6.0	—	—	6.0	—	6.0
—Dividends paid to non-controlling interests		—	—	—	—	—	(35.2)	(35.2)
As of December 29, 2018		2.9	2,416.9	(854.3)	381.9	1,947.4	386.3	2,333.7
Net income		—	—	—	690.1	690.1	4.0	694.1
Other comprehensive loss, net	23	—	—	(4.1)	—	(4.1)	(2.4)	(6.5)
Total comprehensive (loss) income		—	—	(4.1)	690.1	686.0	1.6	687.6
Other changes in equity:								
—Issuance of shares		—	1.8	—	—	1.8	—	1.8
—Share-based compensation	21	—	14.6	—	—	14.6	—	14.6
—Change in ownership of a controlled subsidiary		—	1.2	—	—	1.2	(1.2)	—
—Shares issued by a subsidiary to a non-controlling interest		—	—	—	—	—	1.8	1.8
—Dividends paid to non-controlling interests		—	—	—	—	—	(28.8)	(28.8)
As of December 28, 2019		$ 2.9	$ 2,434.5	$ (858.4)	$ 1,072.0	$ 2,651.0	$ 359.7	$3,010.7

The accompanying notes form an integral part of these consolidated financial statements.

1. Background

Gates Industrial Corporation plc (the "Parent Company") is a public limited company that was incorporated under the laws of England and Wales on September 25, 2017. Prior to the completion of the initial public offering of the Company's shares in January 2018, the Company undertook certain reorganization transactions such that Gates Industrial Corporation plc now owns indirectly all of the equity interests in Omaha Topco Limited ("Omaha Topco"), and has become the holding company of the Gates business. The previous owners of Omaha Topco were various investment funds managed by affiliates of The Blackstone Group Inc. (together, "Blackstone" or our "Sponsor"), and Gates management equity holders. Gates Industrial Corporation plc had no significant business transactions or activities prior to the date of the reorganization transactions, and as a result, the historical financial information reflects that of Omaha Topco.

In these consolidated financial statements and related notes, all references to the "Gates", "we", "us", "our" refer, unless the context requires otherwise, to the Parent Company and its subsidiaries.

Gates manufactures a wide range of power transmission and fluid power products and components for a large variety of industrial and automotive applications, both in the aftermarket and first-fit channels, throughout the world. Gates is comprised of two operating segments: Power Transmission and Fluid Power.

2. Significant accounting policies

A. Basis of presentation

The consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are presented in U.S. dollars unless otherwise indicated.

The accounting policies used in preparing these consolidated financial statements and related notes are the same as those applied in the prior period, except for the adoption of the following new Accounting Standard Updates (each, an "ASU") at the beginning of our 2019 fiscal year:

- ASU 2016-02 "*Leases*" (Topic 842)
- ASU 2018-10 "*Leases*" (Topic 842): Codification Improvements to Topic 842, Leases
- ASU 2018-11 "*Leases*" (Topic 842): Targeted Improvements
- ASU 2019-01 "*Leases*" (Topic 842): Codification Improvements

In February 2016, the Financial Accounting Standards Board ("FASB") issued an ASU which introduces a lessee model that has brought most leases of property, plant and equipment onto the balance sheet. It requires a lessee to recognize a lease obligation (present value of future lease payments) and also a "right-of-use asset" for all leases. The ASU introduces two models for the subsequent measurement of the lease asset and liability, depending on whether the lease qualifies as a "finance lease" or an "operating lease." This distinction focuses on whether or not effective control of the asset is being transferred from the lessor to the lessee.

We have adopted Topic 842 using the practical expedient permitted by ASU 2018-11, and, consequently, comparative information in these consolidated financial statements has not been restated.

We applied the following additional practical expedients on transition to Topic 842:

(i) we did not reassess whether or not any expired or existing contracts were or contained leases;

(ii) we did not reassess the lease classification for any expired or existing leases (i.e., all existing leases that were classified as operating leases continued to be classified as such under Topic 842, and all existing leases that were classified as capital leases continued to be classified as finance leases); and

(iii) we did not reassess any initial direct costs for leases existing on the date of adoption of Topic 842.

On transition, we recognized a right-of-use asset of $126.0 million and a lease liability of $132.9 million, with the difference relating primarily to reclassifying deferred rent liabilities that existed under Topic 840 "*Leases*" into the new right-of-use asset. Note 15 sets out disclosures related to Topic 842.

The following ASUs that were also adopted on the first day of the 2019 fiscal year did not have a significant impact on our results, financial position or disclosures:

- ASU 2018-07 "*Compensation - Stock Compensation*" (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting
- ASU 2018-16 "*Derivatives and Hedging*" (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In addition, we adopted ASU 2018-02 "*Income Statement - Reporting Comprehensive Income*" (Topic 220): Reclassification of Certain Tax Effects from Accumulated OCI; however, we have not adopted the policy election outlined therein regarding the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The remaining stranded tax effects in accumulated other comprehensive income will be released upon recognition of the related deferred tax basis differences.

B. Accounting periods

The Company prepares its annual consolidated financial statements as of the Saturday nearest December 31. Accordingly, the consolidated balance sheets are presented as of December 28, 2019 and December 29, 2018 and the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity are presented for the years ended December 28, 2019 ("Fiscal 2019"), December 29, 2018 ("Fiscal 2018") and December 30, 2017 ("Fiscal 2017").

C. Basis of consolidation

The consolidated financial statements include the results of operations, cash flows and assets and liabilities of Gates and its majority-owned subsidiaries, and our share of the results of our equity method investees.

We consolidate entities in which we have a controlling interest or when we are considered the primary beneficiary of a variable interest entity. The consolidated financial statements reflect the assets, liabilities, revenues and expenses of consolidated subsidiaries and the non-controlling parties' ownership interest is presented as a non-controlling interest. Intercompany transactions and balances, and any unrealized profits or losses arising from intercompany transactions, are eliminated on consolidation.

D. Foreign currency transactions and translation

Transactions denominated in currencies other than the entity's functional currency (foreign currencies) are translated into the entity's functional currency at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing on the reporting date. Exchange differences arising from changes in exchange rates are recognized in net income for the period. The net foreign currency transaction loss included in operating income from continuing operations during Fiscal 2019 was $1.7 million, compared with a loss of $4.0 million in Fiscal 2018 and a loss of $7.6 million in Fiscal 2017. We also recognized net financing-related foreign currency transaction gains within other (income) expenses of $0.8 million during Fiscal 2019, compared with a gain of $8.7 million in Fiscal 2018 and a loss of $57.4 million in Fiscal 2017.

On consolidation, the results of operations of entities whose functional currency is other than the U.S. dollar are translated into U.S. dollars at the weighted average exchange rate for the period and their assets and liabilities are translated into U.S. dollars at the exchange rate prevailing on the balance sheet date. Currency translation differences are recognized within other comprehensive income ("OCI") as a separate component of accumulated OCI. In the event that a foreign operation is sold, or substantially liquidated, the cumulative currency translation differences that are attributable to the operation are reclassified to net income.

In the statement of cash flows, the cash flows of operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars at the weighted average exchange rate for the period.

E. Net sales

Gates derives its net sales primarily from the sale of a wide range of power transmission and fluid power products and components for a large variety of industrial and automotive applications, both in the aftermarket and first-fit channels, throughout the world.

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We apply the five-step model under Topic 606 ("Revenue from Contracts with Customers") to all contracts. The five steps are: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) we satisfy a performance obligation.

In the substantial majority of our agreements with customers, we consider accepted customer purchase orders, which in some cases are governed by master sales agreements, to represent the contracts with our customers. Revenue from the sale of goods under these contracts is measured at the invoiced amount, net of estimated returns, early settlement discounts and rebates. Taxes collected from customers relating to product sales and remitted to government authorities are excluded from revenues. Where a customer has the right to return goods, future returns are estimated based on historical returns profiles. Settlement discounts that may apply to unpaid invoices are estimated based on the settlement histories of the relevant customers. Our transaction prices often include variable consideration, usually in the form of discounts and rebates that may apply to issued invoices. The reduction in the transaction price for variable consideration requires that we make estimations of the expected total qualifying sales to the relevant customers. These estimates, including an analysis for potential constraint on variable consideration, take into account factors such as the nature of the rebate program, historical information and expectations of customer and consumer behavior. Overall, the transaction price is reduced to reflect our estimate of the consideration that is not probable of significant reversal.

We allocate the transaction price to each distinct performance obligation based on their relative standalone selling price. The product price as specified on the accepted purchase order is considered to be the standalone selling price.

In substantially all of our contracts with customers, our performance obligations are satisfied at a point in time, rather than over a period of time, when control of the product is transferred to the customer. This occurs typically at shipment. In determining whether control has transferred and the customer is consequently able to control the use of the product for their own benefit, we consider if there is a present right to payment, legal title and physical possession has been transferred, whether the risks and rewards of ownership have transferred to the customer, and if the customer accepts the asset.

F. Selling, general and administrative expenses

Shipping and handling costs

Costs of outbound shipping and handling are included in SG&A. During Fiscal 2019, we recognized shipping and handling costs of $145.2 million, compared with $159.9 million in Fiscal 2018 and $147.0 million in Fiscal 2017.

Research and development costs

Research and development costs are charged to net income in the period in which they are incurred. Our research and development expense was $67.9 million in Fiscal 2019, compared with $71.4 million in Fiscal 2018 and $68.6 million in Fiscal 2017. These costs related primarily to product development and also to technology to enhance manufacturing processes.

Advertising costs

Advertising costs are expensed as incurred and included in SG&A. During Fiscal 2019, we recognized advertising costs of $10.2 million, compared with $10.4 million in Fiscal 2018 and $10.4 million in Fiscal 2017.

G. Restructuring expenses

Restructuring expenses are incurred in major projects undertaken to rationalize and improve our cost competitiveness. Restructuring expenses incurred during the periods presented are analyzed in note 8.

Liabilities in respect of termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement are recognized over the future service period when those employees are required to render services to the entity beyond the minimum retention period. If employees are not required to render service until they are terminated or if they will not be retained to render service beyond 60 days or a longer legal notification period, the liability is recognized on the communication date.

Termination benefits that are covered by a contract or an ongoing benefit arrangement are recognized when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. Benefits that are offered for a short period of time in exchange for voluntary termination are recognized when the employees accept the offer.

Restructuring expenses other than termination benefits and lease exit costs are recognized only when the Company has incurred a related liability.

H. Business combinations

A business combination is a transaction or other event in which control is obtained of one or more businesses.

Consideration transferred in a business combination is measured at the aggregate of the fair values of the assets acquired, liabilities assumed, debt issued and equity instruments issued in exchange for control over the acquired business. Acquisition-related costs are recognized in net income in the period in which they are incurred.

Identifiable assets and liabilities of the acquired business, as well as any non-controlling interests in the acquired business, are measured at their fair value at the acquisition date.

Goodwill arising in a business combination is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquired business and, in a business combination achieved in stages, the fair value at the acquisition date of the previously held equity interest in the acquired business, over the net identifiable assets and liabilities of the acquired business at the acquisition date. If the net identifiable assets and liabilities of the acquired business exceed the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquired business and the fair value at the acquisition date of any previously held equity interest, that excess is recognized as a gain in net income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report provisional amounts for the items for which the accounting is incomplete. If, within a maximum of one year after the acquisition date, new information is obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date, adjustments are made to the amounts recognized, or new assets and liabilities recognized with a corresponding adjustment to goodwill. Otherwise, any adjustments to the provisional amounts are recognized in net income.

I. Goodwill

Goodwill arising in a business combination is allocated to the reporting unit that is expected to benefit from the synergies of the acquisition.

Where goodwill is attributable to more than one reporting unit, the goodwill is determined by allocating the purchase consideration in proportion to their respective business enterprise values and comparing the allocated purchase consideration with the fair value of the identifiable assets and liabilities of the reporting unit. Goodwill is not amortized but is tested for impairment on the first day of the fourth quarter or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable and is carried at cost less any recognized impairment. For both reporting units, the fair values exceeded the carrying values and no goodwill impairments were therefore recognized during Fiscal 2019, Fiscal 2018 or Fiscal 2017.

To identify a potential impairment of goodwill, the fair value of the reporting unit to which the goodwill is allocated is compared with its carrying amount, including goodwill. We calculate fair values using a weighted blend of income and market approaches. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. If the fair value is lower than the carrying amount, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the amount of goodwill allocated to that reporting unit.

J. Other intangible assets

Other intangible assets are stated at cost less accumulated amortization and any recognized impairment.

(i) Assets acquired in business combinations

An acquired intangible asset with a finite useful life is amortized on a straight-line basis so as to charge its cost, which represents its fair value at the date of acquisition, to net income over the Company's expectation of its useful life, as follows:

Customer relationships	15 to 17 years
Technology	5 to 7 years

Acquired brands and trade names are considered to have an indefinite useful life and are not amortized but are tested at least annually for impairment and are carried at cost less any recognized impairment.

(ii) Computer software

Computer software that is not integral to an item of property, plant and equipment is recognized separately as an intangible asset. Computer software is amortized on a straight-line basis over its estimated useful life, which ranges from 2 to 6 years.

K. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any recognized impairment losses. Major improvements are capitalized. Expenditures for repairs and maintenance that do not significantly extend the useful life of the asset are expensed as incurred.

Land and assets under construction are not depreciated. Depreciation of property, plant and equipment, other than land and assets under construction, is generally expensed on a straight-line basis over their estimated useful lives. The Company's estimated useful lives of items of property, plant and equipment are generally in the following ranges:

Buildings and improvements	30 to 40 years
Leasehold improvements	Shorter of lease term or useful life
Machinery, equipment and vehicles	2 to 20 years

L. Impairment of long-lived assets and intangible assets

Long-lived assets and intangible assets to be held and used, except intangible assets with indefinite useful lives, are reviewed for impairment when events or circumstances indicate that the carrying amount of the asset or asset group may not be recoverable.

Intangible assets with indefinite useful lives are tested at least annually for impairment or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. A long-lived asset, or finite lived intangible asset or asset group is considered to be impaired when the undiscounted expected future cash flows from the asset or asset group are less than its carrying amount. In that event, an impairment loss is recognized to the extent that the carrying amount of the asset or asset group exceeds its fair value. Fair value is estimated as the present value of the expected future cash flows from the asset or asset group discounted at a rate commensurate with the risk involved. An impairment loss for an asset group is allocated to the long-lived and intangible assets of the group on a pro rata basis using the relative carrying amounts of those assets, with the limitation that the carrying amount of an individual asset is not reduced below its fair value.

M. Inventories

Inventories are stated at the lower of cost or net realizable value. A valuation adjustment is made to inventory for any excess, obsolete or slow moving items based on management's review of on-hand inventories compared with historical and estimated future sales and usage profiles. Any consequent write down of inventory results in a new cost basis for inventory.

Cost represents the expenditure incurred in bringing inventories to their existing location and condition, which may include the cost of raw materials, direct labor costs, other direct costs and related production overheads. Cost is generally determined on a first in, first out ("FIFO") basis, but the cost of certain inventories is determined on a last in, first out ("LIFO") basis. As of December 28, 2019, inventories whose cost was determined on a LIFO basis represented 32.5% of the total carrying amount of inventories compared with 31.6% as of December 29, 2018.

N. Financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits available on demand and other short-term, highly liquid investments with maturities on acquisition of 90 days or less. We have cash concentrations in certain large, highly-rated global financial institutions. Management closely monitors the credit quality of the institutions in which it holds deposits.

(ii) Restricted cash

Restricted cash, which is included in the prepaid expenses and other assets line in the consolidated balance sheet, includes cash given as collateral under letters of credit for insurance and regulatory purposes. Cash and cash equivalents for the purposes of the consolidated statement of cash flows includes restricted cash of $1.3 million as of December 28, 2019, compared with $1.2 million and $1.6 million as of December 29, 2018 and December 30, 2017, respectively.

(iii) Trade accounts receivable

Trade accounts receivable represent the amount of sales of goods to customers, net of discounts and rebates, for which payment has not been received, less an allowance for doubtful accounts that is estimated based on factors such as the credit rating of the customer, historical trends, the current economic environment and other information.

(iv) Debt

Debt is initially measured at its principal amount, net of directly attributable transaction costs, if any, and is subsequently measured at amortized cost using the effective interest rate method.

(v) Accounts payable

Accounts payable represents the amount of invoices received from suppliers for purchases of goods and services and the amount of goods received but not invoiced, for which payment has not been made.

(vi) Derivative financial instruments

We use derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts, interest rate caps (options) and interest rate swaps, to reduce our exposure to foreign currency risk and interest rate risk. We do not hold or issue derivatives for speculative purposes and monitor closely the credit quality of the institutions with which we transact.

We recognize all derivative financial instruments as either assets or liabilities at fair value on the balance sheet date. The accounting for the change in the fair value is recognized in net income based on the nature of the items being hedged unless the financial instrument has been designated in an effective cash flow or net investment hedging relationship, in which case the change in fair value is recognized in OCI.

(vii) Investments

Equity investments are measured at fair value. Subsequent to the adoption of ASU 2016-01 "*Financial Instruments*" at the beginning of Fiscal 2018, changes in the fair value of equity investments are recognized in net income. Prior to this, changes in their fair values were recognized in OCI.

(viii) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities that are held at fair value, or for which fair values are presented in these consolidated financial statements, have been categorized into one of three levels to reflect the degree to which observable inputs are used in determining the fair values. Where a change in the determination of the fair value of a financial asset or liability results in a transfer between the levels of the fair value hierarchy, we recognize that transfer at the end of the reporting period.

O. Post-retirement benefits

Post-retirement benefits comprise pension benefits provided to employees and other benefits, mainly healthcare, provided to certain employees in North America.

We account for our post-retirement benefit plans in accordance with Topic 715 "*Compensation – Retirement Benefits*", which is based on the principle that the cost of providing these benefits is recognized in net income over the service periods of the participating employees.

For defined benefit plans, the net obligation or surplus arising from providing the benefits is recognized as a liability or an asset determined by actuarial valuations of each of the plans that are carried out annually by independent qualified actuaries as of the year end balance sheet date. Benefit obligations are measured using the projected unit credit method. Plan assets (if any) are measured at fair value. We recognize the service cost component of our net periodic pension and other post-retirement benefit cost in the lines within operating income to which the relevant employees' other compensation costs are reported. All other components of the net periodic benefit cost (which include the interest cost, the expected return on plan assets, gains or losses on settlements and curtailments, the amortization of prior year service cost or credit and prior year actuarial gains and losses) are included in the other (expenses) income line, outside of operating income from continuing operations.

Actuarial gains and losses represent differences between the expected and actual returns on the plan assets, gains and losses on the plan liabilities and the effect of changes in actuarial assumptions. We use the "corridor approach" whereby, to the extent that cumulative actuarial gains and losses exceed 10% of the greater of the market related value of the plan assets and the projected benefit obligation at the beginning of the fiscal year, they are reclassified from accumulated other comprehensive income to net income over the average remaining service periods of participating employees.

Gains and losses on settlements and curtailments are recognized in net income in the period in which the curtailment or settlement occurs.

P. Share-based compensation

Share-based compensation has historically been provided to certain of our employees under share option, bonus and other share award plans. All share-award plans are equity settled, except for certain awards issued in the form of stock appreciation rights to employees in China, where local regulations necessitate a cash-settled award. These awards are therefore accounted for as liabilities rather than equity.

We recognize compensation expense based on the fair value of the awards, measured using either the share price on the date of grant, a Black-Scholes option-pricing model or a Monte-Carlo valuation model, depending on the nature of the award. Fair value is determined at the date of grant and reflects market and performance conditions and all non-vesting conditions.

Generally, the compensation expense for each separately vesting portion of the award is recognized on a straight-line basis over the vesting period for that portion of the award. Compensation expense is recognized for awards containing performance conditions only to the extent that it is probable that those performance conditions will be met. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or performance conditions.

For equity awards, fair value is not subsequently remeasured unless the conditions on which the award was granted are modified. An amount corresponding to the compensation expense for equity awards is recognized in equity as additional paid in capital.

For liability awards, the fair value is remeasured each period and the change in fair value is recognized in net income for the period with a corresponding change in the outstanding liability.

Q. Income taxes

Current tax is the amount of tax payable or receivable in respect of the taxable income for the period. Taxable income differs from financial reporting income because it excludes items of income or expense recognized for financial reporting purposes that are either not taxable or deductible for tax purposes or are taxable or deductible in other periods. Current tax is calculated using tax rates that have been enacted at the balance sheet date.

Management assesses unrecognized tax benefits based upon an evaluation of the facts, circumstances and information available at the balance sheet date. Provision is made for unrecognized tax benefits to the extent that the amounts previously taken or expected to be taken in tax returns exceeds the tax benefits that are recognized in the consolidated financial statements in respect of the tax positions. A tax benefit is recognized in the consolidated financial statements only if management considers that it is more likely than not that the tax position will be sustained on examination by the relevant tax authority solely on the technical merits of the position and is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement assuming that the tax authority has full knowledge of all relevant information. Provisions for unrecognized tax benefits are reviewed regularly and are adjusted to reflect events such as the expiration of limitation periods for assessing tax, guidance given by the tax authorities and court decisions.

Interest and penalties relating to unrecognized tax benefits are accrued in accordance with the applicable tax legislation on any excess of the tax benefit claimed or expected to be claimed in a tax return and the tax benefit recognized in the consolidated financial statements. Interest and penalties are recognized as a component of income tax benefit (expense) in the consolidated statement of operations and accrued interest and penalties are included under the related taxes payable line in the consolidated balance sheet.

Deferred tax assets and liabilities are recognized based on the expected future tax consequences of the difference between the financial statement carrying amount and the respective tax basis. Deferred taxes are measured on the enacted rates expected to apply to taxable income at the time the difference is anticipated to reverse. Deferred tax assets are reduced through the establishment of a valuation allowance if it is more likely than not that the deferred tax asset will not be realized taking into account the timing and amount of the reversal of taxable temporary differences, expected future taxable income and tax planning strategies.

Deferred tax is provided on taxable temporary differences arising on investments in foreign subsidiaries, except where we intend, and are able, to reinvest such amounts on a permanent basis or to remit such amounts in a tax free manner.

R. Use of estimates

The preparation of consolidated financial statements under U.S. GAAP requires us to make assumptions and estimates concerning the future that affect reported amounts of assets, liabilities, revenue and expenses. Estimates and assumptions are particularly important in accounting for rebates, post-retirement benefits, impairment of long-lived assets, intangible assets and goodwill, inventory valuation, financial instruments, share-based compensation, product warranties and income taxes. Estimates and assumptions used are based on factors such as historical experience, the observance of trends in the industries in which we operate and information available from our customers and other outside sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates.

3. Recent accounting pronouncements not yet adopted

The following recent accounting pronouncements are relevant to Gates' operations but have not yet been adopted.

- ASU 2016-13 "*Financial Instruments*" (Topic 326): Measurement of Credit Losses on Financial Instruments

  In June 2016, the FASB issued an ASU which broadens the information that an entity must consider when developing its expected credit loss estimate for financial assets. The financial asset must be measured at the net amount expected to be collected.

  The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We currently do not expect that adoption of this ASU will have a significant impact on our consolidated financial statements, but it may affect certain disclosures.

- ASU 2018-13 "*Fair Value Measurement*" (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

  In August 2018, the FASB issued an ASU to modify the disclosure requirements on fair value measurements in Topic 820 "*Fair Value Measurement*" including the consideration of costs and benefits. The amendments remove certain disclosures, clarify other disclosure requirements, and add new disclosure requirements that have been identified as relevant.

The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Most of the amendments should be applied retrospectively to all periods presented, but a few amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. We expect that the adoption of this ASU will not have a significant impact on our financial instrument disclosures, but we are still finalizing our evaluation.

- ASU 2018-14 "*Compensation - Retirement Benefits - Defined Benefit Plans - General*" (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans

  In August 2018, the FASB issued an ASU to modify the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The amendments remove certain disclosures, clarify other disclosure requirements, and add new disclosure requirements that have been identified as relevant.

  The amendments are effective for fiscal years ending after December 15, 2020, and should be applied on a retrospective basis to all periods presented. The impact on our consolidated financial statements of adopting this ASU, which will affect our disclosures, is still being evaluated.

- ASU 2018-15 "*Intangibles - Goodwill and Other - Internal-Use Software*" (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

  In August 2018, the FASB issued an ASU to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement). The guidance permits capitalization of costs associated with the implementation of cloud-based software arrangements and aligns the criteria for capitalization with those for purchased or internally-generated computer software intangible assets. Implementation costs meeting the criteria for capitalization would not be classified as intangible assets but would instead be classified as prepaid expenses that are then amortized over the period of the arrangement as an additional expense consistent with the ongoing costs under the cloud computing arrangement.

  The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted and entities may choose to apply the requirements either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We do not expect any significant impact on our consolidated financial statements on adoption of this ASU.

- ASU 2019-12 "*Simplifying the Accounting for Income Taxes*" (Topic 740): Income Taxes

  In December 2019, the FASB issued an ASU to simplify and reduce the complexity of general principles in Topic 740: Income Taxes. Such simplifications include the elimination of certain exceptions to: 1) the incremental approach for intraperiod tax allocation, 2) the requirement to recognize a deferred income tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, 3) the ability not to recognize a deferred income tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and 4) the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

  The amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The ASU provides for a number of different approaches to applying the changes, depending on the amendment, from full retrospective to modified retrospective to fully prospective. The impact on our consolidated financial statements of adopting this ASU is still being evaluated.

4. Acquisitions

Description and financial effect of acquisitions

On April 26, 2018, Gates completed the acquisition of Rapro for $50.9 million, net of cash acquired. Rapro is a Turkey-based business that engineers, manufactures and sells molded and branched hoses and other products, the majority of which are sold into replacement markets. Rapro operates out of two facilities in Izmir, Turkey, with its products serving heavy-duty, commercial and light-vehicle applications.

Goodwill of $34.4 million arose from this acquisition and related primarily to the expected benefit from the acceleration of our growth strategy within the Fluid Power product line and expansion of our product range and geographic coverage.

In October 2017, we completed the acquisition of Atlas Hydraulics for $74.0 million, net of cash acquired. Atlas Hydraulics is a fully-integrated product engineering, manufacturing, and commercial business headquartered in Ontario, Canada. With locations in Canada, the U.S. and Mexico, the company specializes in the design, manufacture, and supply of hydraulic tube and hose assemblies. The goodwill of $23.0 million arising from the acquisition of Atlas Hydraulics relates primarily to the expansion of our presence in industrial markets through increased manufacturing capacity and geographic reach.

In June 2017, we purchased 100% of GTF Engineering and Services UK Limited, the owner of the majority of the net assets of Techflow Flexibles, for $36.7 million. Techflow Flexibles is a fully integrated engineering, manufacturing and commercial operation based in the U.K. that specializes in high-pressure flexible hoses. The goodwill of $22.5 million arising from the acquisition of Techflow Flexibles relates largely to the expected enhancement to our ability to make and supply long-length and large-diameter hoses, primarily for the oil & gas exploration and production industries.

All of the above acquired businesses are included in the Fluid Power reporting segment and none of the associated goodwill recognized is expected to be deductible for income tax purposes.

During the years ended December 29, 2018 and December 30, 2017, we incurred expenses of $1.8 million and $3.0 million, respectively, related directly to these acquisitions, all of which are included in the transaction-related expenses line in the statement of operations. No expenses related to these acquisitions were incurred during the year ended December 28, 2019.

Pro forma information has not been presented for these acquisitions because it is not material.

5. Segment information

A. Background

The segment information provided in these consolidated financial statements reflects the information that is used by the chief operating decision maker for the purposes of making decisions about allocating resources and in assessing the performance of each segment. The chief executive officer ("CEO") of Gates serves as the chief operating decision maker. These decisions are based on net sales and Adjusted EBITDA (defined below).

B. Operating segments and segment assets

Gates manufactures a wide range of power transmission and fluid power products and components for a large variety of industrial and automotive applications, both in the aftermarket and first-fit channels, throughout the world.

Our reportable segments are identified on the basis of our primary product lines, as this is the basis on which information is provided to the CEO for the purposes of allocating resources and assessing the performance of Gates' businesses. Our operating and reporting segments are therefore Power Transmission and Fluid Power.

Segment asset information is not provided to the chief operating decision maker and therefore segment asset information has not been presented. Due to the nature of Gates' operations, cash generation and profitability are viewed as the key measures rather than an asset base measure.

C. Segment net sales and disaggregated net sales

Sales between reporting segments and the impact of such sales on Adjusted EBITDA for each segment are not included in internal reports presented to the CEO and have therefore not been included below.

	Net Sales		
	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Power Transmission	$ 1,945.7	$ 2,098.8	$ 2,009.4
Fluid Power	1,141.4	1,248.8	1,032.3
Continuing operations	**$ 3,087.1**	**$ 3,347.6**	**$ 3,041.7**

Our commercial function is organized by region and therefore, in addition to reviewing net sales by our reporting segments, the CEO also reviews net sales information disaggregated by region, including between emerging and developed markets.

The following table summarizes our net sales by key geographic region of origin:

	Net Sales					
	For the year ended					
	December 28, 2019		December 29, 2018		December 30, 2017	
(dollars in millions)	Power Transmission	Fluid Power	Power Transmission	Fluid Power	Power Transmission	Fluid Power
U.S.	$ 580.4	$ 590.0	$ 606.3	$ 671.7	$ 582.2	$ 565.9
North America, excluding	165.3	175.9	159.3	185.6	148.2	134.8
United Kingdom ("U.K.")	43.6	37.3	55.0	39.9	57.2	27.6
EMEA[1], excluding U.K.	509.9	173.6	584.5	172.8	551.3	144.8
East Asia and India	288.6	74.3	311.7	87.5	308.7	78.0
Greater China	288.4	57.8	310.7	59.0	285.6	51.5
South America	69.5	32.5	71.3	32.3	76.2	29.7
Net Sales	**$ 1,945.7**	**$ 1,141.4**	**$ 2,098.8**	**$ 1,248.8**	**$ 2,009.4**	**$ 1,032.3**

[1] Europe, Middle East and Africa ("EMEA").

The following table summarizes our net sales into emerging and developed markets:

	Net Sales		
	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Developed	$ 2,013.4	$ 2,157.4	$ 1,964.4
Emerging	1,073.7	1,190.2	1,077.3
Net Sales	**$ 3,087.1**	**$ 3,347.6**	**$ 3,041.7**

D. Measure of segment profit or loss

The CEO uses Adjusted EBITDA, as defined below, to measure the profitability of each segment. Adjusted EBITDA is, therefore, the measure of segment profit or loss presented in Gates' segment disclosures.

"EBITDA" represents net income for the period before net interest and other (income) expenses, income taxes, depreciation and amortization derived from financial information prepared in accordance with U.S. GAAP.

Adjusted EBITDA represents EBITDA before certain items that are considered to hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses. During the periods presented, the items excluded from EBITDA in computing Adjusted EBITDA primarily included:

- the non-cash charges in relation to share-based compensation;
- transaction-related expenses incurred in relation to business combinations and major corporate transactions, including acquisition integration activities;
- impairments, comprising impairments of goodwill and significant impairments or write downs of other assets;
- restructuring expenses, including severance-related expenses;
- the net gain or loss on disposals and on the exit of businesses; and
- fees paid to our private equity sponsor for monitoring, advisory and consulting services.

Adjusted EBITDA by segment was as follows:

(dollars in millions)	Adjusted EBITDA For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Power Transmission	$ 412.6	$ 492.2	$ 458.1
Fluid Power	198.4	263.6	211.0
Continuing operations	**$ 611.0**	**$ 755.8**	**$ 669.1**

Reconciliation of net income from continuing operations to Adjusted EBITDA:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Net income from continuing operations	$ 694.7	$ 271.7	$ 182.0
Income tax (benefit) expense	(495.9)	31.8	(72.5)
Income from continuing operations before taxes	**198.8**	**303.5**	**109.5**
Interest expense	157.8	175.9	234.6
Other (income) expenses	(9.8)	17.4	58.8
Operating income from continuing operations	**346.8**	**496.8**	**402.9**
Depreciation and amortization	222.2	218.5	212.2
Transaction-related expenses [1]	2.6	6.7	18.1
Impairment of intangibles and other assets	0.7	0.6	2.8
Restructuring expenses	6.0	6.4	17.4
Share-based compensation expense	15.0	6.0	5.4
Sponsor fees (included in other operating expenses)	6.5	8.0	6.7
Impact of fair value adjustment on inventory (included in cost of sales)	—	0.3	1.2
Inventory impairments and adjustments (included in cost of sales)	1.2	1.2	2.0
Duplicate expenses incurred on facility relocation	—	5.2	—
Severance-related expenses (included in cost of sales)	4.0	1.7	—
Other primarily severance-related expenses (included in SG&A)	3.4	4.4	—
Other items not directly related to current operations	2.6	—	0.4
Adjusted EBITDA	**$ 611.0**	**$ 755.8**	**$ 669.1**

[1] Transaction-related expenses relate primarily to advisory fees recognized in respect of our initial public offering, the acquisition of businesses and costs related to other corporate transactions such as debt refinancings.

E. Selected geographic information

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Property, plant and equipment, net by geographic location		
U.S.	$ 199.2	$ 212.5
Rest of North America	117.3	107.4
U.K.	32.6	33.3
Rest of EMEA	154.4	157.3
East Asia and India	65.6	75.6
Greater China	138.4	149.3
South America	20.4	20.9
	$ 727.9	**$ 756.3**

F. Information about major customers

Gates has a significant concentration of sales in the U.S., which accounted for 43.2% of Gates' net sales by destination from continuing operations during Fiscal 2019, compared with 39.2% during Fiscal 2018 and 38.5% during Fiscal 2017. During Fiscal 2019, Fiscal 2018 and Fiscal 2017, no single customer accounted for more than 10% of Gates' net sales. Two customers of our North America businesses accounted for 18.9% and 11.3%, respectively, of our total trade accounts receivable balance as of December 28, 2019, compared with 17.2% and 10.7%, respectively, as of December 29, 2018. These concentrations are due to the extended payment terms common in the industry in which they operate.

6. Employees

Employee costs recognized in operating income from continuing operations during the year were as follows:

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Wages and salaries	$ 543.6	$ 581.2	$ 537.4
Social security costs	73.4	78.8	68.1
Post-retirement benefits	24.7	24.1	23.6
Share-based incentives	15.0	6.0	5.4
Medical insurance costs	29.6	30.5	29.5
Other primarily insurance-related costs	42.3	37.7	38.5
	728.6	**758.3**	**702.5**
Termination benefits	12.4	6.0	13.0
	$ 741.0	**$ 764.3**	**$ 715.5**

The average number of persons employed by Gates, excluding the Company's non-executive directors but including temporary employees, was as follows:

	For the year ended		
	December 28, 2019	December 29, 2018	December 30, 2017
U.S.	4,460	4,163	4,021
Rest of North America	2,980	2,998	2,213
U.K.	694	517	509
Rest of EMEA	3,463	3,252	2,820
East Asia and India	2,410	2,252	2,055
Greater China	2,291	2,265	2,140
South America	686	727	732
	16,984	**16,174**	**14,490**

The directors' remuneration, analyzed under the headings required by Company Law, is set out below. This information is required to be presented for Fiscal 2019 and the qualifying service period from January 29, 2018, being the date on which Gates Industrial Corporation plc became the holding company of Gates, to December 29, 2018. For the period from incorporation on September 25, 2017 to January, 28 2018, none of the directors received any remuneration for qualifying services as directors of Gates Industrial Corporation plc.

(dollars in millions)	For the year ended December 28, 2019	For the period from January 29, 2018 to December 29, 2018
Directors' remuneration:		
Emoluments	$ 1.7	$ 2.6
Company contributions to money purchase pension plans	0.2	0.2
	$ 1.9	**$ 2.8**

	For the year ended December 28, 2019	For the period from January 29, 2018 to December 29, 2018
The number of directors who:		
Are members of a money purchase pension plan	1	1
Had awards receivable in the form of shares in the Parent Company under a long-term incentive plan	6	5

(dollars in millions)	For the year ended December 28, 2019	For the period from January 29, 2018 to December 29, 2018
Remuneration of the highest paid director:		
Emoluments	$ 1.0	$ 2.2
Company contributions to money purchase pension plans	$ 0.2	$ 0.2

7. Auditor's remuneration

The following table presents fees for professional services rendered by Deloitte LLP and affiliates ("Deloitte") for the audit of our consolidated financial statements and other services in Fiscal 2019 and Fiscal 2018.

	For the year ended	
(dollars in millions)	December 28, 2019	December 29, 2018
Auditing of the parent company and consolidated financial statements	$ 3.8	$ 2.7
Audit of the Company's subsidiaries	0.6	0.4
Audit-related assurance services	0.3	1.5
Taxation compliance services	0.1	0.1
Taxation advice	0.2	0.3
Other assurance services	0.1	—
	$ 5.1	**$ 5.0**

In Fiscal 2019 and Fiscal 2018, all of Deloitte's services and fees were pre-approved by the Audit Committee.

8. Restructuring and other strategic initiatives

Gates continues to undertake various restructuring and other strategic initiatives to drive increased productivity in all aspects of our operations. These actions include efforts to consolidate our manufacturing and distribution footprint, scale operations to current demand levels, combine back-office workgroups and relocate certain operations to lower cost locations. Our recently completed manufacturing footprint investments and other productivity improvements in recent years have helped to position us to accelerate and expand upon our previously announced restructuring program, which is primarily intended to optimize our manufacturing and distribution footprint over the mid-term by removing structural fixed costs, and, to a lesser degree, to streamline our SG&A back-office functions.

Overall costs associated with our restructuring and other strategic initiatives have been recognized in the consolidated statements as set forth below. Expenses incurred in relation to certain of these actions qualify as restructuring expenses under U.S. GAAP.

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Restructuring expenses:			
—Severance	$ 4.7	$ 0.5	$ 13.6
—Professional fees	1.6	3.5	3.2
—Other restructuring (benefits) expenses	(0.3)	2.4	0.6
	6.0	**6.4**	**17.4**
Restructuring expenses in cost of sales:			
—Impairment of inventory	1.2	0.4	2.0
—Other restructuring expenses	—	0.5	0.2
Total restructuring expenses	**$ 7.2**	**$ 7.3**	**$ 19.6**
Expenses related to other strategic initiatives:			
—Severance costs included in cost of sales	$ 4.0	$ 1.2	$ —
—Severance costs included in SG&A	3.4	3.1	—
—Impairment of fixed assets	0.7	—	—
Total expenses related to other strategic initiatives	**$ 8.1**	**$ 4.3**	**$ —**

Restructuring and other strategic initiatives undertaken during the year ended December 28, 2019 related primarily to reductions in workforce, across all regions and impairments of inventory and fixed assets related to facility closures in countries including France, the U.S., Turkey and Australia. An additional $1.6 million of professional fees were incurred during Fiscal 2019, relating primarily to the closure of one of our facilities in France, the implementation of our European corporate center, and a strategic restructuring of part of our Asian business. Expenses incurred during the prior year in connection with our restructuring and other strategic initiatives also related primarily to the items described above.

Restructuring activities

As indicated above, restructuring expenses, as defined under U.S. GAAP, form a subset of our total expenses related to restructuring and other strategic initiatives. These expenses include the impairment of inventory, which is recognized in cost of sales. Analyzed by segment, our restructuring expenses were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Power Transmission	$ 3.5	$ 2.8	$ 11.1
Fluid Power	3.7	4.5	8.5
Continuing operations	**$ 7.2**	**$ 7.3**	**$ 19.6**

The following summarizes the reserve for restructuring expenses for the years ended December 28, 2019, December 29, 2018, and December 30, 2017, respectively:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018
Balance as of the beginning of the period	$ 2.6	$ 8.6
Utilized during the period	(5.7)	(13.5)
Net charge for the period	6.1	8.0
Released during the period	(0.1)	(0.7)
Foreign currency translation	—	0.2
Balance as of the end of the period	**$ 2.9**	**$ 2.6**

Restructuring reserves, which are expected to be utilized in 2020, are included in the consolidated balance sheet as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Accrued expenses and other current liabilities	$ 2.9	$ 2.2
Other non-current liabilities	—	0.4
	$ 2.9	**$ 2.6**

9. Income taxes

Provision for income taxes

Gates Industrial Corporation plc is domiciled in the United Kingdom. Income (loss) from continuing operations before taxes and income tax (benefit) expense are summarized below based on the geographic location of the operation to which such earnings and income taxes are attributable.

	Income (loss) before income taxes		
	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
U.K.	$ (80.6)	$ (12.8)	$ 1.0
U.S.	0.9	(43.3)	(63.1)
Other	278.5	359.6	171.6
Income from continuing operations before income taxes	**$ 198.8**	**$ 303.5**	**$ 109.5**

Income tax (benefit) expense on income from continuing operations analyzed by tax jurisdiction is as follows:

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Current tax			
U.K.	$ 7.5	$ 0.8	$ 2.8
U.S.	21.0	9.0	7.8
Other foreign	124.3	86.9	79.7
Total current tax expense	**$ 152.8**	**$ 96.7**	**$ 90.3**
Deferred income tax			
U.K.	$ (4.7)	$ 2.8	$ 0.9
U.S.	(49.3)	(45.3)	(141.6)
Other foreign	(594.7)	(22.4)	(22.1)
Total deferred income tax benefit	**(648.7)**	**(64.9)**	**(162.8)**
Income tax (benefit) expense	**$ (495.9)**	**$ 31.8**	**$ (72.5)**

Reconciliation of the applicable statutory income tax rate to the reported effective income tax rate:

	For the year ended		
	December 28, 2019	December 29, 2018	December 30, 2017
U.K. corporation tax rate	19.0%	19.0%	
U.S. corporation tax rate			35.0%
Effect of:			
—State tax provision, net of Federal benefit	(2.1%)	(1.5%)	2.5%
—Provision for unrecognized income tax benefits	34.0%	(1.3%)	2.7%
—Company Owned Life Insurance	(4.4%)	(2.8%)	(12.1%)
—Tax on international operations[1]	(325.9%)	(1.1%)	45.1%
—Manufacturing incentives[2]	0.5%	(4.2%)	(5.8%)
—Change in valuation allowance[3]	6.6%	2.9%	111.7%
—Deferred income tax rate changes	17.8%	0.2%	(146.8%)
—Currency exchange rate movements	6.5%	0.1%	(105.1%)
—Other permanent differences	(1.4%)	(0.8%)	6.6%
Reported effective income tax rate	**(249.4%)**	**10.5%**	**(66.2%)**

(1) "Tax on international operations" includes U.S. tax on foreign earnings, unremitted earnings of foreign subsidiaries, and effects of differences between statutory and foreign tax rates each of which was reported separately for the years ended December 28, 2019, December 29, 2018 and December 30, 2017. In addition, for the years ended December 28, 2019 and December 29, 2018, it also includes the effects of global funding structures and the Tax Act; and for the year ended December 28, 2019, it also includes $608.6 million for the generation of finite lived net operating losses in Luxembourg.

(2) "Manufacturing incentives" for the year ended December 28, 2019 includes an adjustment of $5.0 million for the expiration of manufacturing incentives in the Czech Republic, offset partially by $4.1 million of incentives generated during the year.

(3) "Change in valuation allowance" for the year ended December 28, 2019 is comprised primarily of an increase of $608.6 million of additional valuation allowance for finite lived net operating losses generated in Luxembourg, offset partially by a release of $579.0 million of valuation allowance against indefinite lived net operating losses in Luxembourg and by a release of $5.0 million of valuation allowances on manufacturing incentives in the Czech Republic.

Tax Cuts and Jobs Act

On December 22, 2017 the Tax Cuts and Jobs Act ("TCJA") was enacted into law, which significantly changed U.S. tax law. TJCA among other things lowered the U.S. statutory federal tax rate from 35% to 21%, modified existing interest limitation regulations, and created new provisions for global intangible low-tax income ("GILTI") and the base erosion anti-abuse tax ("BEAT") that taxes certain payments between U.S. corporation and their subsidiaries. During 2019, additional proposed and final regulations were released to clarify the provisions modified or created within TCJA. The effects of the final regulations and any proposed regulations that are anticipated to be enacted substantially in similar form were included in our annual results.

Deferred income tax assets (liabilities)

Deferred income tax assets (liabilities) recognized by the Company were as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Deferred income tax assets:		
Accounts receivable	$ 3.1	$ 3.1
Inventories	6.2	6.2
Property, plant and equipment	5.9	5.2
Lease liabilities	37.0	6.2
Accrued expenses	46.8	41.9
Post-retirement benefit obligations	27.8	30.5
Compensation	12.8	15.2
Net operating losses	1,480.3	932.3
Capital losses	130.7	126.3
Credits	138.7	157.1
Interest	120.9	48.5
Other items	11.0	7.2
	$ 2,021.2	**$ 1,379.7**
Valuation allowances	(1,200.2)	(1,191.5)
Total deferred income tax assets	**$ 821.0**	**$ 188.2**
Deferred income tax liabilities:		
Inventories	(22.7)	(21.6)
Property, plant and equipment	(51.2)	(50.9)
Lease right-of-use assets	(30.1)	(0.6)
Intangible assets	(450.7)	(482.9)
Post-retirement benefit obligations	(6.8)	(9.7)
Undistributed earnings	(40.9)	(55.9)
Other items	(0.8)	(1.0)
Total deferred income tax liabilities	**$ (603.2)**	**$ (622.6)**
Net deferred income tax assets (liabilities)	**$ 217.8**	**$ (434.4)**

As of December 28, 2019:

- Gates had U.S. federal, U.K. and foreign operating tax losses amounting to $5,918.7 million and U.S. state operating tax losses amounting to $154.0 million. Operating losses of $3,324.0 million can be carried forward indefinitely and $2,748.7 million have expiration dates between 2020 and 2039. We recognized a related deferred income tax asset of $597.7 million after valuation allowance of $882.6 million;
- Gates had U.S. state and U.K. capital tax losses amounting to $768.1 million. Capital losses of $768.0 million can be carried forward indefinitely and $0.1 million expire in 2028. We recognized no related deferred income tax asset after valuation allowance $130.7 million;
- Gates had U.S. federal, Luxembourg, Belgium and U.K. interest expense carried forward amounting to $518.1 million. Interest expense carried forward can be carried forward indefinitely. We recognized a related deferred tax asset of $73.0 million after valuation allowance of $47.9 million;
- Gates had U.S. federal foreign tax credits amounting to $135.5 million, which expire between 2020 and 2027. We recognized no related deferred income tax asset after valuation allowance of $135.5 million; and
- Gates had other tax credits amounting to $3.2 million, of which $0.6 million can be carried forward indefinitely and $2.6 million expire between 2020 and 2029. We recognized a deferred income tax asset of $1.8 million after valuation allowance of $1.4 million.

As of December 28, 2019, income and withholding taxes in the various tax jurisdictions in which Gates operates have not been provided on approximately $1,701.1 million of taxable temporary differences related to the investments in the Company's subsidiaries. These temporary differences represent the estimated excess of the financial reporting over the tax basis in our investments in those subsidiaries, which are primarily the result of purchase accounting adjustments. These temporary differences are not expected to reverse in the foreseeable future, but could become subject to income and withholding taxes in the various tax jurisdictions in which Gates operates if they were to reverse. The amount of unrecognized deferred income tax liability on these taxable temporary differences has not been determined because the hypothetical calculation is not practicable due to the uncertainty as to how they may reverse. However, Gates has recognized a deferred income tax liability of $40.9 million on taxable temporary differences related to undistributed earnings of the Company's subsidiaries.

Recoverability of Deferred Income Tax Assets and Liabilities

We recognize deferred income tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under U.S. GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We evaluate the recoverability of our deferred income tax assets, weighing all positive and negative evidence, and are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred income tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of deferred income tax assets requires us to weigh all available evidence, including:

- taxable income in prior carry back years if carry back is permitted under the relevant tax law;
- future reversal of existing temporary differences;
- tax-planning strategies that are prudent and feasible; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined in Fiscal 2019 that it was more likely than not that deferred income tax assets in Luxembourg, the U.K., and the U.S. totaling $586.2 million were realizable.

Included within the $586.2 million total deferred income tax assets are deferred income tax assets totaling $579.0 million related to €2.1 billion of indefinite lived net operating losses in Luxembourg for which our evaluation of the positive and negative evidence changed during the first quarter of Fiscal 2019 due to the implementation of our European corporate center. Our European corporate center was implemented in Fiscal 2019 to centralize and strengthen regional operations in Europe, which thereafter became centrally managed from Luxembourg.

The positive evidence that existed in favor of releasing the allowance as of December 28, 2019 and ultimately outweighed the negative evidence included the following:

- our profitability in Europe in Fiscal 2018 and prior years and for Fiscal 2019, as well as our expectations regarding the sustainability of these profits;
- the impact of the implementation of our European corporate center, which created an expectation of future income in Luxembourg and, thereby, removed negative evidence that supported maintaining the valuation allowance against our deferred income tax assets as of December 29, 2018; and
- the fact that our net operating loss carryforwards in Luxembourg are indefinite lived.

Further, as a result of additional financing income realized in Fiscal 2019 that created taxable profits in the U.K., combined with our estimate that the financing income is likely to remain as a source of income through 2024, our judgment changed in the first quarter of Fiscal 2019 regarding valuation allowances totaling $6.1 million related to indefinite-lived net operating losses in the U.K.

Finally, as a result of changes in estimates of future taxable profits in the first quarter of Fiscal 2019, our judgment changed regarding the realizability of $1.1 million of U.S. foreign tax credits with related recorded valuation allowances.

As of each reporting date, management considers new evidence, both positive and negative, that could impact our view with regard to the future realization of deferred income tax assets. We will maintain our positions with regard to future realization of deferred income tax assets, including those with respect to which we continue maintaining valuation allowances, until there is sufficient new evidence to support a change in expectations. Such a change in expectations could arise due to many factors, including those impacting our forecasts of future earnings, as well as changes in the international tax laws under which we operate and tax planning. It is not reasonably possible to forecast any such changes at the present time, but it is possible that, should they arise, our view of their effect on the future realization of deferred income tax assets may impact materially our consolidated financial statements.

Unrecognized income tax benefits

The following is a reconciliation of the gross beginning and ending amount of unrecognized income tax benefits, excluding interest and penalties:

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
At the beginning of the period	$ 80.1	$ 106.1	$ 106.3
Increases for tax positions related to the current period	70.6	0.4	5.5
Increases for tax positions related to prior periods	5.8	0.2	4.6
Decreases for tax positions related to prior periods	(2.1)	(1.5)	(2.8)
Decreases related to settlements	—	—	(0.7)
Decreases due to lapsed statute of limitations	(8.1)	(21.0)	(11.8)
Foreign currency translation	1.0	(4.1)	5.0
At the end of the period	**$ 147.3**	**$ 80.1**	**$ 106.1**

Unrecognized income tax benefits represent the difference between the income tax benefits that we are able to recognize for financial reporting purposes and the income tax benefits that we have recognized or expect to recognize in filed tax returns. Such amounts represent a reasonable provision for income taxes ultimately expected to be paid, and may need to be adjusted over time as more information becomes known.

If all unrecognized income tax benefits were recognized, the net impact on the provision for income taxes which would impact the annual effective tax rate would be $122.6 million, including all competent authority offsets.

As of December 28, 2019, December 29, 2018, and December 30, 2017, Gates had accrued $19.6 million, $13.4 million, and $13.9 million, respectively, for the payment of worldwide interest and penalties on unrecognized income tax benefits, which are not included in the table above. Gates recognizes interest and penalties relating to unrecognized income tax benefits in the provision for income tax expense.

We believe that it is reasonably possible that a decrease of up to $4.0 million of unrecognized income tax benefits will occur in the next 12 months as a result of the expiration of the statutes of limitations in multiple jurisdictions. Additionally, we believe it is reasonably possibly that a decrease of $20 to $25 million, of unrecognized tax benefits will occur in the next 12 months as a result of expected settlement of audits in Germany and Canada.

As of December 28, 2019, Gates remains subject to examination in the US for tax years 2015 to 2018 and in other major jurisdictions for tax years 2008 to 2018.

10. Earnings per share

Basic earnings per share represents net income attributable to shareholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share considers the dilutive effect of potential shares, unless the inclusion of the potential shares would have an anti-dilutive effect. The treasury stock method is used to determine the potential dilutive shares resulting from assumed exercises of equity-related instruments.

The computation of earnings per share is presented below:

(dollars in millions, except share numbers and per share amounts)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Net income attributable to shareholders	$ 690.1	$ 245.3	$ 151.3
Weighted average number of shares outstanding	290,057,360	285,906,693	245,520,533
Dilutive effect of share-based awards	1,570,101	5,791,580	4,970,295
Diluted weighted average number of shares outstanding	**291,627,461**	**291,698,273**	**250,490,828**
Basic earnings per share	$ 2.38	$ 0.86	$ 0.62
Diluted earnings per share	$ 2.37	$ 0.84	$ 0.60

For the years ended December 28, 2019, December 29, 2018 and December 30, 2017, shares totaling 3,679,014, 932,515 and 180,538, respectively, were excluded from the diluted earnings per share calculation because they were anti-dilutive.

11. Inventories

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Raw materials and supplies	$ 118.9	$ 152.1
Work in progress	33.6	38.4
Finished goods	322.6	347.1
Total inventories	**$ 475.1**	**$ 537.6**

12. Property, plant and equipment

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Cost		
Land and buildings	$ 318.6	$ 313.3
Machinery, equipment and vehicles	819.4	736.0
Assets under construction	49.8	84.3
	1,187.8	**1,133.6**
Less: Accumulated depreciation and impairment	(459.9)	(377.3)
Total	**$ 727.9**	**$ 756.3**

During Fiscal 2019, the depreciation expense in relation to the above assets was $92.3 million, compared with $87.8 million during Fiscal 2018 and $81.3 million during Fiscal 2017. During Fiscal 2019, no interest was capitalized to property, plant and equipment in relation to the construction of qualifying assets, compared with $4.5 million during Fiscal 2018. No interest was capitalized during Fiscal 2017.

During Fiscal 2019, an impairment of property, plant and equipment of $0.7 million was recognized, compared to $2.7 million in Fiscal 2018, which included $2.1 million reported in restructuring expenses in relation to the planned closure of a facility in Europe. No significant impairments were recognized in relation to property, plant and equipment during Fiscal 2017.

Property, plant and equipment includes assets held under finance leases with a carrying amount of $2.8 million as of December 28, 2019, compared with $2.2 million as of December 29, 2018.

Gates' secured debt is jointly and severally, irrevocably and fully and unconditionally guaranteed by certain of its subsidiaries and are secured by liens on substantially all of their assets, including property, plant and equipment.

13. Goodwill

(dollars in millions)	Power Transmission	Fluid Power	Total
Cost and carrying amount			
As of December 30, 2017	$ 1,430.2	$ 655.3	$ 2,085.5
Acquisitions	—	35.6	35.6
Foreign currency translation	(56.1)	(19.1)	(75.2)
As of December 29, 2018	**1,374.1**	**671.8**	**2,045.9**
Foreign currency translation	3.4	11.2	14.6
As of December 28, 2019	**$ 1,377.5**	**$ 683.0**	**$ 2,060.5**

As described further in note 4, in April 2018, Gates completed the acquisition of Rapro. Included in the acquisitions line above for Fiscal 2018 is $34.4 million of goodwill arising from the acquisition of Rapro. An additional $1.2 million of goodwill was recognized during the second quarter of 2018 on finalization of the purchase accounting for the Atlas acquisition.

14. Intangible assets

	As of December 28, 2019			As of December 29, 2018		
(dollars in millions)	Cost	Accumulated amortization and impairment	Net	Cost	Accumulated amortization and impairment	Net
Finite-lived:						
—Customer relationships	$ 2,021.8	$ (656.3)	$ 1,365.5	$ 2,017.4	$ (534.8)	$ 1,482.6
—Technology	90.8	(87.8)	3.0	90.6	(87.0)	3.6
—Capitalized software	76.1	(38.0)	38.1	64.2	(29.2)	35.0
	2,188.7	**(782.1)**	**1,406.6**	**2,172.2**	**(651.0)**	**1,521.2**
Indefinite-lived:						
—Brands and trade names	513.4	(44.0)	469.4	513.4	(44.0)	469.4
Total intangible assets	**$ 2,702.1**	**$ (826.1)**	**$ 1,876.0**	**$ 2,685.6**	**$ (695.0)**	**$ 1,990.6**

During Fiscal 2019 and Fiscal 2018, no significant impairments were recognized, compared with an impairment of $1.0 million recognized in relation to technology and know-how during Fiscal 2017. Refer to note 17.D. for additional detail on assets measured at fair value on a non-recurring basis.

During Fiscal 2019, the amortization expense recognized in respect of intangible assets was $129.9 million, compared with $130.7 million for Fiscal 2018 and $130.9 million for Fiscal 2017. In addition, movements in foreign currency exchange rates resulted in an increase in the net carrying value of total intangible assets of $3.0 million in Fiscal 2019, compared with a decrease of $35.3 million in Fiscal 2018.

The amortization expense for the next five years is estimated to be as follows:

Fiscal year	(dollars in millions)
—2020	$ 131.6
—2021	131.1
—2022	129.7
—2023	124.5
—2024	123.5

15. Leases

A. Overview

As discussed in note 2, at the beginning of our 2019 fiscal year, we adopted new lease accounting guidance under Topic 842 "*Leases*", which brings most leases of property, plant and equipment onto the balance sheet. It requires a lessee to recognize a lease obligation (present value of future lease payments) and also a "right-of-use asset" for all leases, although certain short-term leases are exempted from the standard.

Under Topic 842, we evaluate our contracts and supply arrangements and conclude that they contain a lease at inception where (i) a tangible asset is explicitly or implicitly identified in the contract, (ii) we use the same asset identified over the course of the agreement, (iii) we obtain substantially all of the economic benefits from the use of the underlying asset, and (iv) we direct how and for what purpose the asset is used during the term of the contract. Leases are typically recognized on the balance sheet at their commencement date. However, if we take legal possession and have control over the asset before the commencement date, we would recognize the lease on the balance sheet at the earlier date.

Gates has over 1,000 leases covering a wide variety of tangible assets that are used in our operations across the world. The value of our global leases is concentrated in approximately 90 real estate leases, which accounted for approximately 90% of the lease liability under non-cancellable leases as of December 28, 2019. The remaining leases are predominantly comprised of equipment and vehicle leases.

Options to extend or terminate leases

In determining the lease term, we consider various economic factors, including real estate strategies, the nature, length and underlying terms of the agreement, as well as the uncertainty of the condition of leased equipment at the end of the lease term. Based on these factors, where a contract has a renewal option, we generally assume with reasonable certainty that we will renew real estate leases and will not renew equipment, vehicles or any other leases.

Variable payments

We sometimes make payments under our lease agreements that are excluded from the measurement of our right-of-use assets and lease liabilities and are recognized instead as variable payments in the period in which the obligation for those payments is incurred. These costs include common area maintenance, insurance, taxes, utility costs, etc. A number of our leases, particularly real estate leases, include base rent escalation clauses. The majority of these are based on the change in a local consumer price or similar index. Payments that vary based on an index or rate are included in the measurement of our right-of-use assets and lease liabilities at the rate as of the commencement date with any subsequent changes to those payments being recognized as variable payments in the period in which they occur.

Residual value guarantees, restrictions or covenants, and leases that have not yet commenced

Gates does not have any significant leases containing residual value guarantees, restrictions or covenants. Additionally, as of December 28, 2019, there were no significant new leases that have not yet commenced.

B. Significant assumptions and judgments

Discount rate

The discount rate used to calculate the present value of the future minimum lease payments is the rate implicit in the lease, when readily available. As most of our leases do not have a readily determinable implicit rate, we discount the future minimum lease payments using an incremental borrowing rate which represents the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. We determine this rate at a country or lower level and take into account factors including currency, country risk premium, industry risk and adjustments for collateralized debt. Appropriate yield curves are used to derive different debt tenors to approximate the applicable lease term.

The discount rate is reassessed when there is a remeasurement of the lease liability, which happens predominantly when there is a contract modification and that modification does not result in a separate contract.

Elections and practical expedients

The following practical expedients have been adopted as part of our accounting policy on leases:

(i) we will not separate the lease component from the non-lease component for all asset classes. We have therefore not allocated consideration in a contract between lease and non-lease components; and

(ii) we recognize the payments on short-term leases (leases with terms at inception of 12 months or fewer) in net income on a straight-line basis over the lease term. No amount is recognized on the balance sheet with respect to these leases.

C. Quantitative disclosures

(dollars in millions)	For the year ended December 28, 2019
Lease expenses	
Operating lease expenses	$ 30.3
Finance lease amortization expenses	0.3
Short-term lease expenses	4.6
Variable lease expenses	6.9
Sublease income	(0.1)
Total lease expenses	**$ 42.0**

Other information	
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 19.7
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 0.9
Cash paid for amounts included in the measurement of lease liabilities:	
—Operating cash flows from operating leases	$ 26.3
—Financing cash flows from finance leases	0.4
	$ 26.7
Weighted-average remaining lease term — finance leases	8.5 years
Weighted-average remaining lease term — operating leases	10.1 years
Weighted-average discount rate — finance leases	2.5 %
Weighted-average discount rate — operating leases	5.4 %

Maturity analysis of liabilities

(dollars in millions)	Operating leases	Finance leases [1]
Next 12 months	$ 25.5	$ 0.6
Year 2	21.6	0.5
Year 3	18.2	0.5
Year 4	15.0	0.2
Year 5	13.4	—
Year 6 and beyond	84.5	—
Total lease payments	**178.2**	**1.8**
Interest	(43.9)	(0.1)
Total present value of lease liabilities	**$ 134.3**	**$ 1.7**

(1) Although our finance leases have a weighted average remaining lease term of 8.5 years, the primary lease includes a ten year rent-free period at the end of the contract such that there will be no lease payments made beyond December 2022.

Balance sheet presentation of leases as of December 28, 2019

(dollars in millions)	Operating leases	Finance leases
Right-of-use assets	**$ 123.0**	**$ 2.8**
Short-term lease liabilities (included in "Accrued expenses and other current liabilities")	$ 19.5	$ 0.3
Long-term lease liabilities	114.8	1.4
Total lease liabilities	**$ 134.3**	**$ 1.7**

Right-of-use assets arising under finance leases are presented in the property, plant and equipment, net line item in the consolidated balance sheet. The amortization of right-of-use operating assets during the year ended December 28, 2019 was $23.6 million. This is included in the change in prepaid expenses and other assets line in the consolidated statement of cash flows.

Topic 840 Disclosures

Future minimum lease payments under operating and finance leases that had initial or remaining non-cancelable lease terms in excess of one year as of December 29, 2018 were as follows:

(dollars in millions)	Operating leases	Finance leases	Total
Fiscal year			
2019	$ 25.0	$ 0.3	**$ 25.3**
2020	21.3	0.3	**21.6**
2021	18.2	0.3	**18.5**
2022	14.4	0.3	**14.7**
2023	12.6	0.4	**13.0**
2024 and beyond	86.5	0.4	**86.9**
Total	**$ 178.0**	**$ 2.0**	**$ 180.0**

16. Derivative financial instruments

We are exposed to certain risks relating to our ongoing business operations. From time to time, we use derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts, interest rate caps (options) and interest rate swaps, to reduce our exposure to foreign currency risk and interest rate risk. We do not hold or issue derivatives for speculative purposes and monitor closely the credit quality of the institutions with which we transact.

We recognize derivative instruments as either assets or liabilities in the consolidated balance sheet. We designate certain of our currency swaps as net investment hedges and designate our interest rate caps and interest rate swaps as cash flow hedges. The gain or loss on the designated derivative instrument is recognized in OCI and reclassified into net income in the same period or periods during which the hedged transaction affects earnings.

Derivative instruments that have not been designated in an effective hedging relationship are considered economic hedges, and their change in fair value is recognized in net income in each period.

The period end fair values of derivative financial instruments were as follows:

(dollars in millions)	As of December 28, 2019					As of December 29, 2018				
	Prepaid expenses and other assets	Other non-current assets	Accrued expenses and other current liabilities	Other non-current liabilities	Net	Prepaid expenses and other assets	Other non-current assets	Accrued expenses and other current liabilities	Other non-current liabilities	Net
Derivatives designated as hedging instruments:										
—Currency swaps	$ 4.2	$ —	$ —	$ (19.3)	**$ (15.1)**	$ 5.4	$ —	$ —	$ (27.5)	**$ (22.1)**
—Interest rate caps	—	—	(4.0)	(3.0)	**(7.0)**	3.5	1.6	—	(10.9)	**(5.8)**
—Interest rate swaps	—	—	(5.3)	(29.0)	**(34.3)**	—	—	(0.3)	(2.6)	**(2.9)**
Derivatives not designated as hedging instruments:										
—Currency swaps	—	—	(0.1)	—	**(0.1)**	—	—	—	—	—
—Currency forward	1.2	—	(0.2)	—	**1.0**	1.3	—	(0.4)	—	**0.9**
	$ 5.4	**$ —**	**$ (9.6)**	**$ (51.3)**	**$ (55.5)**	**$ 10.2**	**$ 1.6**	**$ (0.7)**	**$ (41.0)**	**$ (29.9)**

A. Instruments designated as net investment hedges

We hold cross currency swaps that have been designated as net investment hedges of certain of our European operations. As of December 28, 2019 and December 29, 2018, the notional principal amount of these contracts was $270.0 million. During July 2019, we extended the maturity of these contracts from March 2020 to March 2022. In addition, as of December 28, 2019, we have designated €147.0 million of our Euro-denominated debt as a net investment hedge of certain of our European operations, compared with €30.6 million designated as such as of December 29, 2018.

The fair value gains (losses) before tax recognized in OCI in relation to the instruments designated as net investment hedging instruments were as follows:

(dollars in millions)	For the year ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Net fair value gains (losses) recognized in OCI in relation to:			
—Euro-denominated debt	$ (0.2)	$ (11.0)	$ (73.3)
—Designated cross currency swaps	5.7	20.8	(36.1)
Total net fair value gains (losses)	**$ 5.5**	**$ 9.8**	**$ (109.4)**

During the year ended December 28, 2019, a net gain of $7.8 million was recognized in interest expense in relation to our cross currency swaps that have been designated as net investment hedges, compared with a net gain of $2.5 million during the year ended December 29, 2018.

B. Instruments designated as cash flow hedges

We use interest rate swaps and interest rate caps as part of our interest rate risk management strategy to add stability to interest expense and to manage our exposure to interest rate movements. These instruments are all designated as cash flow hedges. As of December 28, 2019 and December 29, 2018, we held three pay-fixed, receive-floating interest rate swaps with an aggregate notional amount of $870.0 million, which run from June 30, 2020 through June 30, 2023. Our interest rate caps involve the receipt of variable rate payments from a counterparty if interest rates rise above the strike rate on the contract in exchange for a premium. As of December 28, 2019 and December 29, 2018, the notional amount of the interest rate cap contracts outstanding was $1.7 billion and $2.7 billion, respectively.

The periods covered by our interest rate caps and their notional values are as follows:

(in millions)	Notional value
June 30, 2017 to June 30, 2020	$ 200.0
June 28, 2019 to June 30, 2020	$ 1,000.0
July 1, 2019 to June 30, 2023	€ 425.0

The movements before tax recognized in OCI in relation to our cash flow hedges were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Movement recognized in OCI in relation to:			
—Fair value loss on cash flow hedges	$ (31.7)	$ (4.5)	$ (2.0)
—Deferred premium reclassified from OCI to net income	2.5	5.4	11.6
Total movement	**$ (29.2)**	**$ 0.9**	**$ 9.6**

As of December 28, 2019, we expect to reclassify an estimated $10.4 million in OCI, net of taxes, to earnings within the next twelve months associated with cash flow hedges along with the earnings effects of the related forecasted transactions.

C. Derivative instruments not designated as hedging instruments

We do not designate our currency forward contracts, which are used primarily in respect of operational currency exposures related to payables, receivables and material procurement, or the currency swap contracts that are used to manage the currency profile of Gates' cash as hedging instruments for the purposes of hedge accounting.

As of December 28, 2019, the notional principal amount of outstanding currency swaps that are used to manage the currency profile of Gates' cash was $16.7 million, compared with $0 as of December 29, 2018.

As of December 28, 2019, the notional amount of outstanding currency forward contracts that are used to manage operational foreign exchange exposures was $82.5 million, compared with $108.0 million as of December 29, 2018.

The fair value gains recognized in net income in relation to derivative instruments that have not been designated as hedging instruments were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Fair value gains (losses) recognized in relation to:			
—Currency forward contracts recognized in SG&A	$ 3.0	$ 2.4	$ 2.8
—Currency swaps recognized in other (income) expenses	0.6	0.6	(0.5)
Total	**$ 3.6**	**$ 3.0**	**$ 2.3**

17. Fair value measurement

A. Fair value hierarchy

We account for certain assets and liabilities at fair value. Topic 820 "*Fair Value Measurements and Disclosures*" establishes the following hierarchy for the inputs that are used in fair value measurement:

- "Level 1" inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- "Level 2" inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- "Level 3" inputs are not based on observable market data (unobservable inputs).

Assets and liabilities that are measured at fair value are categorized in one of the three levels on the basis of the lowest-level input that is significant to its valuation.

B. Financial instruments not held at fair value

Certain financial assets and liabilities are not measured at fair value; however, items such as cash and cash equivalents, restricted cash, revolving credit facilities and bank overdrafts generally attract interest at floating rates and accordingly their carrying amounts are considered to approximate fair value. Due to their short maturities, the carrying amounts of accounts receivable and accounts payable are also considered to approximate their fair values.

The carrying amount and fair value of our debt are set out below:

	As of December 28, 2019		As of December 29, 2018	
(dollars in millions)	Carrying amount	Fair value	Carrying amount	Fair value
Current	$ 46.1	$ 45.9	$ 51.6	$ 50.4
Non-current	2,912.3	2,946.8	2,953.4	2,873.2
	$ 2,958.4	**$ 2,992.7**	**$ 3,005.0**	**$ 2,923.6**

Debt is comprised principally of borrowings under the secured credit facilities and the unsecured senior notes. Loans under the secured credit facilities pay interest at floating rates, subject to a 1% LIBOR floor on the Dollar Term Loan and a 0% EURIBOR floor on the Euro Term Loan. The fair values of the term loans are derived from a market price, discounted for illiquidity. The unsecured senior notes have fixed interest rates, are traded by "Qualified Institutional Buyers" and certain other eligible investors, and their fair value is derived from their quoted market price.

C. Assets and liabilities measured at fair value on a recurring basis

The following table categorizes the assets and liabilities that are measured at fair value on a recurring basis:

(dollars in millions)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Total
As of December 28, 2019			
Equity investments	$ 1.1	$ —	**$ 1.1**
Derivative assets	$ —	$ 5.4	**$ 5.4**
Derivative liabilities	$ —	$ (60.9)	**$ (60.9)**
As of December 29, 2018			
Equity investments	$ 0.8	$ —	**$ 0.8**
Derivative assets	$ —	$ 11.8	**$ 11.8**
Derivative liabilities	$ —	$ (41.7)	**$ (41.7)**

Available-for-sale securities represent equity securities that are traded in an active market and therefore are measured using quoted prices in an active market. Derivative assets and liabilities included in Level 2 represent foreign currency exchange forward and swap contracts, and interest rate derivative contracts.

We value our foreign currency exchange derivatives using models consistent with those used by a market participant that maximize the use of market observable inputs including forward prices for currencies.

We value our interest rate derivative contracts using a widely accepted discounted cash flow valuation methodology that reflects the contractual terms of each derivative, including the period to maturity. The methodology derives the fair values of the derivatives using the market standard methodology of netting the discounted future cash payments and the discounted expected receipts. The inputs used in the calculation are based on observable market-based inputs, including interest rate curves, implied volatilities and credit spreads.

We incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Transfers between levels of the fair value hierarchy

During the periods presented, there were no transfers between Levels 1 and 2, and Gates had no assets or liabilities measured at fair value on a recurring basis using Level 3 inputs.

D. Assets measured at fair value on a non-recurring basis

Gates has non-recurring fair value measurements related to certain assets, including goodwill, intangible assets, and property, plant, and equipment. No significant impairment was recognized during either the year ended December 28, 2019 or the year ended December 29, 2018.

18. Debt

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Secured debt:		
—Dollar Term Loan	$ 1,699.1	$ 1,716.4
—Euro Term Loan	717.7	742.1
Unsecured debt:		
—6.25% Dollar Senior Notes due 2026	568.0	—
—6.00% Dollar Senior Notes due 2022	—	568.0
—Other loans	0.2	0.6
Total principal of debt	**2,985.0**	**3,027.1**
Deferred issuance costs	(41.8)	(48.7)
Accrued interest	15.2	26.6
Total carrying value of debt	**2,958.4**	**3,005.0**
Debt, current portion	46.1	51.6
Debt, less current portion	**$ 2,912.3**	**$ 2,953.4**

Gates' secured debt is jointly and severally, irrevocably and fully and unconditionally guaranteed by certain of its subsidiaries and is secured by liens on substantially all of their assets.

Gates is subject to covenants, representations and warranties under certain of its debt facilities. During the periods covered by these consolidated financial statements, we were in compliance with the applicable financial covenants. Also under the agreements governing our debt facilities, our ability to engage in activities such as incurring certain additional indebtedness, making certain investments and paying certain dividends is dependent, in part, on our ability to satisfy tests based on measures determined under those agreements.

The principal payments due under our financing agreements over the next five years and thereafter are as follows:

(dollars in millions)	Total
Fiscal year	
—2020	$ 30.9
—2021	24.7
—2022	24.7
—2023	24.7
—2024	2,312.0
Thereafter	568.0
	$ 2,985.0

Debt issuances and redemptions

On November 22, 2019, we issued and sold $568.0 million of unsecured Dollar Senior Notes, described further below. The proceeds from this debt issuance were used on December 5, 2019 to redeem all $568.0 million of our outstanding 6.00% Dollar Senior Notes, plus interest accrued up to and including the redemption date of $13.2 million. The majority of the costs totaling approximately $8.6 million related to the refinancing transactions have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method.

On January 31, 2018, we redeemed in full our outstanding €235.0 million Euro Senior Notes, plus interest accrued up to and including the redemption date of $0.7 million. The Euro Senior Notes were redeemed at a price of 102.875% and a redemption premium of $8.4 million was therefore paid in addition to the principal of $291.7 million.

On February 8 and February 9, 2018, we redeemed 6.00% Dollar Senior Notes with a principal of $522.0 million and $100.0 million, respectively. Both of these calls were made at a price of 103.0%, incurring redemption premiums of $15.6 million and $3.0 million, respectively. Interest accrued of $2.0 million and $0.4 million, respectively, was also paid on these dates.

The 2018 prepayments, totaling $913.7 million in principal, $27.0 million in redemption premiums and $3.1 million in accrued interest, were funded primarily by the net proceeds from our initial public offering, with the remainder of the funds coming from cash on hand. As a result of these redemptions, the recognition of $15.4 million of deferred financing costs was accelerated and recognized in interest expense in the first three months of 2018.

Dollar and Euro Term Loans

Our secured credit facilities include a Dollar Term Loan credit facility and a Euro Term Loan credit facility that were drawn on July 3, 2014. The maturity date for each of the term loan facilities is March 31, 2024. These term loan facilities bear interest at a floating rate, which for U.S. dollar debt can be either a base rate as defined in the credit agreement plus an applicable margin, or at our option, LIBOR plus an applicable margin. The Euro Term Loan bears interest at EURIBOR subject to a floor of 0%, plus a margin of 3.00%.

On January 29, 2018, the applicable margin on each of the term loans was lowered by 0.25% following the successful completion of our initial public offering. The Dollar Term Loan interest rate is currently LIBOR, subject to a floor of 1.00%, plus a margin of 2.75%, and as of December 28, 2019, borrowings under this facility bore interest at a rate of 4.45% per annum. The Dollar Term Loan interest rate is re-set on the last business day of each month. As of December 28, 2019, the Euro Term Loan bore interest at EURIBOR, which is currently below 0%, subject to a floor of 0%, plus a margin of 3.00%. The Euro Term Loan interest rate is re-set on the last business day of each quarter.

Both term loans are subject to quarterly amortization payments of 0.25%, based on the original principal amount less certain prepayments with the balance payable on maturity. During the year ended December 28, 2019, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $17.3 million and $7.4 million, respectively. During the year ended December 29, 2018, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $13.0 million and $5.8 million, respectively.

Under the terms of the credit agreement, we are obliged to offer annually to the term loan lenders an "excess cash flow" amount as defined under the agreement, based on the preceding year's final results. Based on our 2019 results, the leverage ratio as defined under the credit agreement was below the threshold above which payments are required, and therefore no excess cash flow payment is required to be made in 2020.

During the periods presented, foreign exchange gains were recognized in respect of the Euro Term Loans as summarized in the table below. As a portion of the facility was designated as a net investment hedge of certain of our Euro investments, a corresponding portion of the foreign exchange gains (losses) were recognized in OCI.

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Gain (loss) recognized in statement of operations	$ 17.3	$ 43.6	$ (60.2)
Loss recognized in OCI	(0.2)	(6.0)	(36.5)
Total gain (loss)	**$ 17.1**	**$ 37.6**	**$ (96.7)**

Subsequent to our initial public offering, the above net foreign exchange gains recognized in the other (income) expenses line of the consolidated statement of operations have been substantially offset by net foreign exchange movements on Euro-denominated intercompany loans as part of our overall hedging strategy.

A wholly-owned U.S. subsidiary of Gates Global LLC is the principal obligor under the Term Loans for U.S. federal income tax purposes and makes the payments due on this tranche of debt. As a result, interest received by lenders of this tranche of debt is U.S. source income.

Unsecured Senior Notes

As of December 28, 2019, we had $568.0 million of Dollar Senior Notes outstanding that were issued in November 2019. These notes are scheduled to mature on January 15, 2026 and bear interest at an annual fixed rate of 6.25% with semi-annual interest payments.

On and after January 15, 2022, we may redeem the Dollar Senior Notes, at our option, in whole at any time or in part from time to time, at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid interest to the redemption date:

During the year commencing:	Redemption Price
—2022	103.125 %
—2023	101.563 %
—2024 and thereafter	100.000 %

Additionally, net cash proceeds from an equity offering can be utilized at any time prior to January 15, 2022, to redeem up to 40% of the notes at a redemption price equal to 106.250% of the principal amount thereof, plus accrued and unpaid interest through to the redemption date.

Upon the occurrence of a change of control or a certain qualifying asset sale, the holders of the notes will have the right to require us to make an offer to repurchase each holder's notes at a price equal to 101% (in the case of a change of control) or 100% (in the case of an asset sale) of their principal amount, plus accrued and unpaid interest.

As noted above, on December 5, 2019, we redeemed all $568.0 million of our 6.00% Dollar Senior Notes due in 2022, and, on January 31, 2018, we redeemed in full all €235.0 million of our outstanding Euro Senior Notes and made partial redemptions of the 6.00% Dollar Senior Notes totaling $622.0 million.

Up to the date of their redemption, foreign exchange losses of $9.2 million were recognized in respect of the Euro Senior Notes. Of these losses, $5.0 million was recognized in OCI for the period during which the facility was designated as a net investment hedge of certain of our Euro investments, and $4.2 million was recognized in the statement of operations.

Revolving credit facility

We also have a secured revolving credit facility, maturing on January 29, 2023, that provides for multi-currency revolving loans up to an aggregate principal amount of $185.0 million, with a letter of credit sub-facility of $20.0 million. The facility matures on January 29, 2023.

As of both December 28, 2019 and December 29, 2018, there were no drawings for cash under the revolving credit facility and there were no letters of credit outstanding.

Debt under the revolving credit facility bears interest at a floating rate, which can be either a base rate as defined in the credit agreement plus an applicable margin or, at our option, LIBOR, plus an applicable margin.

Asset-backed revolver

We have a revolving credit facility backed by certain of our assets in North America. The facility allows for loans of up to a maximum of $325.0 million ($294.6 million as of December 28, 2019, compared with $325.0 million as of December 29, 2018, based on the values of the secured assets on those dates) with a letter of credit sub-facility of $150.0 million within this maximum. The facility matures on January 29, 2023.

As of both December 28, 2019 and December 29, 2018, there were no drawings for cash under the asset-backed revolver, but there were letters of credit outstanding of $50.1 million and $57.8 million, respectively.

Debt under the facility bears interest at a floating rate, which can be either a base rate as defined in the credit agreement plus an applicable margin or, at our option, LIBOR, plus an applicable margin.

19. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Accrued compensation	$ 47.3	$ 75.0
Current portion of lease obligations	19.8	0.1
Derivative financial instruments	60.9	41.7
Payroll and related taxes payable	11.3	13.6
VAT and other taxes payable	11.5	10.9
Warranty reserve	17.7	14.3
Workers' compensation reserve	10.0	11.1
Other accrued expenses and other liabilities	95.0	96.7
	$ 273.5	$ 263.4

The above liabilities are presented in Gates' balance sheet within other current liabilities and other non-current liabilities as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
—Accrued expenses and other current liabilities	$ 188.8	$ 184.2
—Other non-current liabilities	84.7	79.2
	$ 273.5	$ 263.4

Changes in warranty reserves (included in accrued expenses and other liabilities) were as follows:

	For the year ended		
(dollars in millions)	December 28, 2019	December 29, 2018	December 30, 2017
Balance at the beginning of the period	$ 14.3	$ 14.1	$ 14.3
Charge for the period	16.5	11.6	12.3
Utilized during the period	(10.9)	(11.0)	(13.1)
Released during the period	(2.2)	(0.1)	(0.1)
Foreign currency translation	—	(0.3)	0.7
Balance at the end of the period	**$ 17.7**	**$ 14.3**	**$ 14.1**

Warranty reserves

An accrual is made for warranty claims on various products depending on specific market expectations and the type of product. These estimates are established using historical information on the nature, frequency and average cost of warranty claims. The majority of the warranty accruals are expected to be utilized during 2019, with the remainder estimated to be utilized within the next three years.

An accrual is made for the cost of product recalls if management considers it probable that it will be necessary to recall a specific product and the amount can be reasonably estimated.

20. Post-retirement benefits

A. Defined contribution pension plans

Gates provides defined contribution pension benefits in most of the countries in which it operates; in particular, the majority of its employees in the U.S. are entitled to such benefits.

During Fiscal 2019, the expense recognized by Gates in respect of defined contribution pension plans was $17.9 million, compared with $19.1 million in Fiscal 2018 and $18.6 million in Fiscal 2017.

B. Defined benefit pension plans

Gates operates defined benefit pension plans in certain of the countries in which it operates, in particular, in the U.S. and U.K. Generally, the pension benefits provided under these plans are based on pensionable salary and the period of service of the individual employees. Plan assets are held separately from those of Gates in funds that are under the control of trustees. All of the defined benefit pension plans operated by Gates are closed to new entrants. In addition to the funded defined benefit pension plans, Gates has unfunded defined benefit obligations to certain current and former employees.

Funded status

The net deficit recognized in respect of defined benefit pension plans is presented in the balance sheet as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Pension surplus	$ (38.1)	$ (52.6)
Accrued expenses and other current liabilities	2.3	2.4
Post-retirement benefit obligations	98.7	102.4
Net unfunded pension obligation	**$ 62.9**	**$ 52.2**
Plans whose projected benefit obligation was in excess of plan assets:		
—Aggregate projected benefit obligation	$ 391.7	$ 378.2
—Aggregate plan assets	$ 290.7	$ 273.4
Plans whose accumulated benefit obligation was in excess of the plan assets:		
—Aggregate accumulated benefit obligation	$ 381.6	$ 372.3
—Aggregate plan assets	$ 286.2	$ 273.0

Benefit obligation

Changes in the projected benefit obligation in relation to defined benefit pension plans were as follows:

	For the year ended	
(dollars in millions)	December 28, 2019	December 29, 2018
Benefit obligation at the beginning of the period	$ 827.1	$ 932.9
Employer service cost	5.5	5.3
Plan participants' contributions	0.2	0.2
Plan amendments	—	11.4
Interest cost	23.4	23.6
Net actuarial loss (gain)	83.1	(41.1)
Benefits paid	(51.6)	(56.5)
Expenses paid from assets	(2.3)	(1.8)
Curtailments and settlements	(3.6)	(13.4)
Foreign currency translation	16.3	(33.5)
Benefit obligation at the end of the period	**$ 898.1**	**$ 827.1**
Accumulated benefit obligation	**$ 892.4**	**$ 821.3**

Changes in plan assets

Changes in the fair value of the assets held by defined benefit pension plans were as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018
Plan assets at the beginning of the period	$ 774.9	$ 893.6
Actual return on plan assets	90.4	(19.7)
Employer contributions	8.5	8.9
Plan participants' contributions	0.2	0.2
Curtailments and settlements	(2.3)	(13.4)
Benefits paid	(51.6)	(56.5)
Expenses paid from assets	(2.3)	(1.8)
Foreign currency translation	17.4	(36.4)
Plan assets at the end of the period	**$ 835.2**	**$ 774.9**

During December 2018, we reflected a plan amendment in respect of certain of our U.K. pension plans. This amendment arose as a result of a recent U.K. High Court ruling in a case unrelated to Gates that has consequences for many U.K. pension plans. The amendment relates to the equalization of benefits in order to address inequalities that arise due to differing guaranteed minimum pension entitlements for men and women. The resulting increase of $11.4 million in the pension liability has been accounted for through OCI as a prior year service cost.

Gates' desired investment objectives for pension plan assets include maintaining an adequate level of diversification to reduce interest rate and market risk, and to provide adequate liquidity to meet immediate and future benefit payment requirements. Outside the U.S., Gates' defined benefit pension plans target a mix of growth seeking assets, comprising equities, and income generating assets, comprising government and corporate bonds, that is considered by the trustees to be appropriate in the circumstances. Plan assets are rebalanced periodically to maintain target asset allocations.

Certain benefit obligations outside the U.S. are matched by insurance contracts.

Investments in equities and fixed income securities are held in pooled investment funds that are managed by investment managers on a passive (or "index-tracking") basis. The trustees ensure that there is no significant concentration of credit risk in any one financial institution.

Plan assets do not include any financial instruments issued by, any property occupied by, or other assets used by Gates.

The fair values of pension plan assets by asset category were as follows:

	As of December 28, 2019				As of December 29, 2018			
(dollars in millions)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Collective investment trusts:								
Equity Securities	$ —	$ 102.7	$ —	**$ 102.7**	$ —	$ 83.2	$ —	**$ 83.2**
Debt Securities								
—Corporate bonds	—	207.9	—	**207.9**	—	156.5	—	**156.5**
—Government bonds	—	231.3	—	**231.3**	—	302.9	—	**302.9**
Annuities and insurance	—	48.7	235.9	**284.6**	—	4.0	223.9	**227.9**
Cash and cash equivalents	8.7	—	—	**8.7**	4.4	—	—	**4.4**
Total	**$ 8.7**	**$ 590.6**	**$ 235.9**	**$ 835.2**	**$ 4.4**	**$ 546.6**	**$ 223.9**	**$ 774.9**

Investments in equities and bonds held in pooled investment funds are measured at the bid price quoted by the investment managers, which reflect the quoted prices of the underlying securities. Insurance contracts are measured at their surrender value quoted by the insurers. Cash and cash equivalents largely attract floating interest rates.

Changes in the fair value of plan assets measured using significant unobservable inputs (level 3) were as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018
Fair value at the beginning of the period	$ 224.0	$ 248.1
Actual return on plan assets	17.9	(0.3)
Purchases	1.4	1.7
Sales	(0.9)	(0.9)
Impacts of benefits paid	(12.3)	(10.5)
Foreign currency translation	5.8	(14.1)
Fair value at the end of the period	**$ 235.9**	**$ 224.0**

Estimated future contributions and benefit payments

Gates' funding policy for its defined benefit pension plans is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. During Fiscal 2020, Gates expects to contribute approximately $4.3 million to its defined benefit pension plans.

Benefit payments, reflecting expected future service, are expected to be made by Gates' defined benefit pension plans as follows:

(dollars in millions)	
Fiscal year	
—2020	$ 48.2
—2021	46.8
—2022	48.3
—2023	47.8
—2024	47.6
—2025 through 2029	239.2

Net periodic benefit cost

Components of the net periodic benefit cost for defined benefit pension plans relating to continuing operations were as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018	For the year ended December 30, 2017
Employer service cost	$ 5.5	$ 5.3	$ 5.8
Settlements and curtailments	(0.6)	0.3	(3.8)
Interest cost	23.4	23.6	30.4
Expected return on plan assets	(27.8)	(22.6)	(26.9)
Amortization of prior net actuarial loss	—	0.1	0.4
Amortization of prior service cost	0.8	0.1	—
Net periodic benefit cost	**$ 1.3**	**$ 6.8**	**$ 5.9**

Other comprehensive income

Changes in plan assets and benefit obligations of defined benefit pension plans recognized in OCI were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Current period net actuarial loss (gain)	$ 20.5	$ 1.2	$ (20.9)
Amortization of prior net actuarial loss	—	(0.1)	(0.4)
Prior service cost	—	11.4	0.7
Amortization of prior service cost	(0.8)	(0.1)	—
(Gain) loss recognized due to settlements and curtailments	(0.8)	(0.3)	3.8
Pre-tax changes recognized in OCI other than foreign currency translation	**18.9**	**12.1**	**(16.8)**
Foreign currency translation	1.0	(0.1)	(0.9)
Total pre-tax changes recognized in OCI	**$ 19.9**	**$ 12.0**	**$ (17.7)**

Cumulative losses (gains) before tax recognized in OCI in respect of post-retirement benefits that had not yet been recognized as a component of the net periodic benefit cost were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Actuarial loss	$ 21.2	$ 1.5	$ 0.7
Prior service costs	11.1	11.9	0.6
Foreign currency translation	(2.9)	(3.9)	(3.8)
Cumulative total	**$ 29.4**	**$ 9.5**	**$ (2.5)**

It is estimated that a net $1.0 million loss will be amortized from accumulated other comprehensive loss into net periodic benefit cost during the period from December 29, 2019 through January 2, 2021.

Assumptions

Major assumptions used in determining the benefit obligation and the net periodic benefit cost for defined benefit pension plans are presented in the following table as weighted averages:

	As of December 28, 2019	As of December 29, 2018
Benefit obligation:		
—Discount rate	2.261 %	2.932 %
—Rate of salary increase	3.173 %	3.190 %
Net periodic benefit cost:		
—Discount rate	2.932 %	2.619 %
—Rate of salary increase	3.190 %	3.178 %
—Expected return on plan assets	3.622 %	2.844 %

In determining the expected return on plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes, and economic and other indicators of future performance. Return projections are validated using a simulation model that incorporates yield curves, credit spreads and risk premiums to project long-term prospective returns.

C. Other defined benefit plans

Gates provides other post-employment benefits, principally health and life insurance cover, on an unfunded basis to certain of its employees in the U.S. and Canada.

Funded status

The deficit recognized in respect of other defined benefit plans is presented in the balance sheet as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Accrued expenses and other current liabilities	$ 5.4	$ 6.5
Post-retirement benefit obligations	52.5	53.5
	$ 57.9	**$ 60.0**

Benefit obligation

Changes in the accumulated benefit obligation in relation to other defined benefit plans were as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018
Benefit obligation at the beginning of the period	$ 60.0	$ 68.4
Interest cost	2.3	2.2
Actuarial gain	(1.8)	(4.8)
Benefits paid	(3.5)	(4.1)
Foreign currency translation	0.9	(1.7)
Benefit obligation at the end of the period	**$ 57.9**	**$ 60.0**
Accumulated benefit obligation	**$ 57.9**	**$ 60.0**

Estimated future contributions and benefit payments

Contributions are made to our other defined benefit plans as and when benefits are paid from the plans. During Fiscal 2020, Gates expects to contribute approximately $5.5 million to its other benefit plans.

Benefit payments, reflecting expected future service, are expected to be made by Gates' other defined benefit plans as follows:

(dollars in millions)	
Fiscal years:	
—2020	$ 5.5
—2021	5.2
—2022	4.9
—2023	4.6
—2024	4.3
—2025 through 2029	18.3

Net periodic benefit cost

Components of the net periodic benefit cost for other defined benefit plans were as follows:

(dollars in millions)	For the year ended December 28, 2019	For the year ended December 29, 2018	For the year ended December 30, 2017
Interest cost	$ 2.3	$ 2.2	$ 2.7
Amortization of prior net actuarial gain	(0.8)	(0.4)	(0.2)
Amortization of prior service credit	(0.4)	(0.4)	(0.1)
Net periodic benefit cost	**$ 1.1**	**$ 1.4**	**$ 2.4**

The net periodic benefit cost relates entirely to continuing operations.

Other comprehensive income

Changes in the benefit obligation of other defined benefit plans recognized in OCI were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Current period net actuarial gain	$ (1.8)	$ (4.8)	$ (3.9)
Amortization of prior net actuarial gain	0.8	0.4	0.2
Prior service credit	—	—	(4.3)
Amortization of prior service credit	0.4	0.4	0.1
Pre-tax changes recognized in OCI other than foreign currency translation	**(0.6)**	**(4.0)**	**(7.9)**
Foreign currency translation	(0.2)	—	—
Total pre-tax changes recognized in OCI	**$ (0.8)**	**$ (4.0)**	**$ (7.9)**

Cumulative gains before tax recognized in OCI in respect of other post-retirement benefits that had not yet been recognized as a component of the net periodic benefit cost were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Actuarial gains	$ (17.3)	$ (16.3)	$ (11.9)
Prior service credits	(3.4)	(3.8)	(4.2)
Other adjustments	0.2	0.2	0.2
Foreign currency translation	(0.2)	—	—
Cumulative total	**$ (20.7)**	**$ (19.9)**	**$ (15.9)**

It is estimated that a $1.4 million gain will be amortized from accumulated other comprehensive income into net periodic benefit cost during the period from December 29, 2019 through January 2, 2021.

Assumptions

Major assumptions used in determining the benefit obligation and the net periodic benefit cost for other defined benefit plans are presented in the following table as weighted averages:

	Benefit obligation		Net periodic benefit cost	
	As of December 28, 2019	As of December 29, 2018	As of December 28, 2019	As of December 29, 2018
Discount rate	3.08 %	4.01 %	4.01 %	3.42 %

The initial healthcare cost trend rate as of December 28, 2019, starts at 6.56%, compared with 7.01% as of December 29, 2018, with an ultimate trend rate of 4.93%, compared with 4.94% as of December 29, 2018, beginning in 2023.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rate as of December 28, 2019 would have the following effects:

(dollars in millions)	1% point increase	1% point decrease
Increase (decrease) in the total of service and interest cost	$ 0.1	$ (0.2)
Increase (decrease) in the benefit obligation	$ 2.1	$ (1.8)

21. Share-based compensation

The Company operates a share-based incentive plan over its shares to provide incentives to Gates' senior executives and other eligible employees. During the year ended December 28, 2019, we recognized a charge of $15.0 million, compared with $6.0 million and $5.4 million, respectively, during the years ended December 29, 2018 and December 30, 2017.

Share-based incentive awards issued under the 2014 Omaha Topco Ltd. Stock Incentive Plan

Gates has a number of awards issued under the 2014 Omaha Topco Ltd. Stock Incentive Plan, which was assumed by the Company and renamed the Gates Industrial Corporation plc Stock Incentive Plan in connection with our initial public offering in January 2018. No new awards have been granted under this plan since 2017. The options are split equally into four tiers, each with specific vesting conditions. Tier I options vest evenly over 5 years from the grant date, subject to the participant continuing to provide service to Gates on the vesting date. Tier II, III and IV options vest on achievement of specified investment returns by Blackstone at the time of a defined liquidity event, which is also subject to the participant's continued provision of service to Gates on the vesting date. The performance conditions associated with Tiers II, III and IV must be achieved on or prior to July 3, 2022 in order for vesting to occur. All the options expire ten years after the date of grant.

Due to Chinese regulatory restrictions on foreign stock ownership, awards granted under this plan to Chinese employees have been issued as stock appreciation rights ("SARs"). The terms of these SARs are identical to those of the options described above with the exception that no share is issued on exercise; instead, cash equivalent to the increase in the value of the shares from the date of grant to the date of exercise is paid to the employee. These awards are therefore treated as liability awards under Topic 718 "*Compensation - Stock Compensation*" and are revalued to their fair value at each period end.

In addition to the above, in 2017, under the same plan, the Company issued 76,293 restricted stock units ("RSUs"). These RSUs vest evenly over three years from the date of grant, subject to the participant's continued provision of service to Gates on the vesting date. The awards expire ten years after the date of grant, in December 2027.

Changes in the awards granted under this plan are summarized in the tables below.

Share-based incentive awards issued under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan

In conjunction with the initial public offering in January 2018, Gates adopted a new equity-based compensation plan, which is a market-based long-term incentive program that allows for the issue of a variety of equity-based and cash-based awards, including stock options, SARs and RSUs.

The SARs and the majority of the share options issued under this plan vest evenly over either three years or four years from the grant date. The remainder of the options, the premium-priced options, vest evenly over a three year period, starting two years from the grant date. All options vest subject to the participant's continued employment by Gates on the vesting date and expire ten years after the date of grant.

The RSUs issued under the plan consist of time-vesting RSUs and performance-based RSUs ("PRSUs"). The time-vesting RSUs vest evenly over either one or three years from the date of grant, subject to the participant's continued provision of service to Gates on the vesting date. The PRSUs provide that 50% of the award will generally vest if Gates achieves a certain level of average annual adjusted return on invested capital as defined in the plan ("Adjusted ROIC") and the remaining 50% of the PRSUs will generally vest if Gates achieves certain relative total shareholder return ("Relative TSR") goals, in each case, measured over a three year performance period and subject to the participant's continued employment through the end of the performance period. The total number of PRSUs that vest at the end of the performance period will range from 0% to 200% of the target based on actual performance against a pre-established scale.

New awards and movements in existing awards granted under this plan are summarized in the tables below.

Summary of movements in options outstanding

	For the year ended December 28, 2019	
	Number of options	Weighted average exercise price $
Outstanding at the beginning of the period:		
—Tier I	4,212,537	$ 7.03
—Tier II	4,837,780	$ 6.97
—Tier III	4,837,780	$ 6.97
—Tier IV	4,837,780	$ 10.46
—SARs	724,372	$ 8.17
—Share options	582,717	$ 17.14
	20,032,966	**$ 8.16**
Granted during the period:		
—SARs	71,150	$ 16.46
—Share options	1,099,505	$ 16.46
—Premium-priced options	796,460	$ 19.00
	1,967,115	**$ 17.49**
Forfeited during the period:		
—Tier I	(115,685)	$ 6.61
—Tier II	(432,440)	$ 6.58
—Tier III	(432,440)	$ 6.58
—Tier IV	(432,440)	$ 9.88
—SARs	(22,119)	$ 15.43
—Share options	(69,862)	$ 16.86
	(1,504,986)	**$ 8.14**
Expired during the period:		
—SARs	(953)	$ 13.44
—Share options	(1,875)	$ 17.72
	(2,828)	**$ 16.28**
Exercised during the period:		
—Tier I	(270,997)	$ 6.61
	(270,997)	**$ 6.61**
Outstanding at the end of the period:		
—Tier I	3,825,855	$ 7.07
—Tier II	4,405,340	$ 7.01
—Tier III	4,405,340	$ 7.01
—Tier IV	4,405,340	$ 10.52
—SARs	772,450	$ 8.72
—Share options	1,610,485	$ 16.69
—Premium-priced options	796,460	$ 19.00
	20,221,270	**$ 9.09**
Exercisable at the end of the period	2,864,411	$ 7.37
Vested and expected to vest at the end of the period	6,978,259	$ 10.81

As of December 28, 2019, the aggregate intrinsic value of options that were vested or expected to vest was $29.4 million and these options had a weighted average remaining contractual term of 7.1 years. As of December 28, 2019, the aggregate intrinsic value of options that were exercisable was $18.6 million and these options had a weighted average remaining contractual term of 5.8 years.

As of December 28, 2019, the unrecognized compensation charge relating to the nonvested options other than Tier II, Tier III and Tier IV options, was $9.3 million, which is expected to be recognized over a weighted-average period of 2.4 years. The unrecognized compensation charge relating to the nonvested Tier II, Tier III and Tier IV options was $28.8 million, which will be recognized on occurrence of a liquidity event as described above.

During the year ended December 28, 2019, cash of $1.8 million was received in relation to the exercise of vested options, compared with $0.6 million during the year ended December 29, 2018. The aggregate intrinsic value of options exercised during the year ended December 28, 2019 was $2.1 million, compared with $0.8 million during the year ended December 29, 2018.

Summary of movements in RSUs and PRSUs outstanding

	For the year ended		
	For the year ended December 28, 2019		
	Number of awards		Weighted average grant date fair value $
Outstanding at the beginning of the period:			
—RSUs	81,800	$	17.13
	81,800	**$**	**17.13**
Granted during the period:			
—RSUs	741,936	$	16.19
—PRSUs	248,550		20.07
	990,486	**$**	**17.16**
Forfeited during the period:			
—RSUs	(54,335)	$	16.59
	(54,335)	**$**	**16.59**
Vested during the period:			
—RSUs	(51,132)	$	17.00
	(51,132)	**$**	**17.00**
Outstanding at the end of the period:			
—RSUs	718,269	$	16.20
—PRSUs	248,550		20.07
	966,819	**$**	**17.19**

As of December 28, 2019, the unrecognized compensation charge relating to nonvested RSUs and PRSUs was $9.0 million, which is expected to be recognized over a weighted average period of 2.1 years, subject, where relevant, to the achievement of the performance conditions described above. The total fair value of RSUs and PRSUs vested during the year ended December 28, 2019 was $0.6 million, compared with $0.4 million during the year ended December 29, 2018.

Valuation of awards granted during the period

The fair value of the options at their grant date was measured using a Black-Scholes valuation model in the case of SARs and share options. RSUs are valued at the share price on the date of grant. The premium-priced options and PRSUs were valued using Monte Carlo simulations. As Gates only has volatility data for its shares for the period since its initial public offering, this volatility has been weighted with the debt-levered volatility of a peer group of public companies in order to determine the expected volatility over the expected option life. The expected option life represents the period of time for which the options are expected to be outstanding and is based on consideration of the contractual life of the option, option vesting period, and historical exercise patterns. The weighted average fair values and relevant assumptions were as follows:

	For the year ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Grant date fair value:			
—SARs	$ 5.88	$ 6.44	$ 3.94
—Share options	$ 5.88	$ 7.44	n/a
—Premium-priced options	$ 5.65	n/a	n/a
—RSUs	$ 16.19	$ 16.97	$ 17.23
—PRSUs	$ 20.07	n/a	n/a
Inputs to the model:			
—Expected volatility - SARs	31.9 %	38.9 %	43.6 %
—Expected volatility - share options	31.9 %	39.6 %	n/a
—Expected volatility - premium-priced options	31.9 %	n/a	n/a
—Expected volatility - PRSUs	32.8 %	n/a	n/a
—Expected volatility - Tiers I-IV options	n/a	n/a	43.6 %
—Expected option life for SARs	6.0	6.3	n/a
—Expected option life for share options	6.0	6.3	n/a
—Expected option life for premium-priced options	7.0	n/a	n/a
—Expected option life for Tier I options	n/a	n/a	6.5
—Expected option life for Tier II-IV options	n/a	n/a	6.0
—Expected option life after liquidity event for Tier II-IV options	n/a	n/a	4.0
—Risk-free interest rate:			
SARs	2.51 %	2.89 %	n/a
Share options	2.51 %	2.80 %	n/a
Premium-priced options	2.53 %	n/a	n/a
PRSUs	2.48 %	n/a	n/a
Tier I options	n/a	n/a	2.04 %
Tiers II-IV options	n/a	n/a	1.98 %

22. Equity

In January 2018, Gates completed an initial public offering of 38,500,000 shares at a price of $19.00 per share. Shortly thereafter, the underwriters of the initial public offering exercised their over-allotment option for a further 5,775,000 shares, also at a price of $19.00 per share. Movements in the Company's number of shares in issue for the years ended December 28, 2019 and December 29, 2018, respectively, were as follows:

	For the year ended	
(number of shares)	December 28, 2019	December 29, 2018
Balance as of the beginning of the year	289,847,574	245,474,605
Issuance of shares	—	44,275,000
Exercise of share options	270,997	79,014
Vesting of restricted stock units, net of withholding taxes	38,728	18,955
Balance as of the end of the year	**290,157,299**	**289,847,574**

The Company has one class of authorized and issued shares, with a par value of $0.01, and each share has equal voting rights.

23. Analysis of accumulated other comprehensive (loss) income

Changes in accumulated other comprehensive (loss) income by component, net of tax, were as follows:

(dollars in millions)	Available-for-sale investments	Post-retirement benefit	Cumulative translation adjustment	Cash flow hedges	Accumulated OCI attributable to shareholders	Non-controlling interests	Accumulated OCI
As of December 31, 2016	**$ (0.2)**	**$ (6.5)**	**$ (884.1)**	**$ (25.1)**	**$ (915.9)**	**$ (55.4)**	**$ (971.3)**
Foreign currency translation	—	—	141.3	—	**141.3**	29.5	**170.8**
Cash flow hedges movements	—	—	—	7.6	**7.6**	—	**7.6**
Available-for-sale investment movements	(0.1)	—	—	—	**(0.1)**	(0.1)	**(0.2)**
Post-retirement benefit movements	—	19.7	—	—	**19.7**	0.5	**20.2**
Other comprehensive (loss) income	**(0.1)**	**19.7**	**141.3**	**7.6**	**168.5**	**29.9**	**198.4**
As of December 30, 2017	**(0.3)**	**13.2**	**(742.8)**	**(17.5)**	**(747.4)**	**(25.5)**	**(772.9)**
Foreign currency translation	—	—	(107.2)	—	**(107.2)**	(17.9)	**(125.1)**
Cash flow hedges movements	—	—	—	5.6	**5.6**	—	**5.6**
Post-retirement benefit movements	—	(5.6)	—	—	**(5.6)**	(0.2)	**(5.8)**
Other comprehensive (loss) income	**—**	**(5.6)**	**(107.2)**	**5.6**	**(107.2)**	**(18.1)**	**(125.3)**
Reclassification to retained earnings on adoption of ASU 2016-01 "Financial Instruments"	0.3	—	—	—	**0.3**	—	**0.3**
As of December 29, 2018	**—**	**7.6**	**(850.0)**	**(11.9)**	**(854.3)**	**(43.6)**	**(897.9)**
Foreign currency translation	—	—	37.7	—	**37.7**	(2.8)	**34.9**
Cash flow hedges movements	—	—	—	(24.9)	**(24.9)**	—	**(24.9)**
Post-retirement benefit movements	—	(16.9)	—	—	**(16.9)**	0.4	**(16.5)**
Other comprehensive (loss) income	**—**	**(16.9)**	**37.7**	**(24.9)**	**(4.1)**	**(2.4)**	**(6.5)**
As of December 28, 2019	**$ —**	**$ (9.3)**	**$ (812.3)**	**$ (36.8)**	**$ (858.4)**	**$ (46.0)**	**$ (904.4)**

24. Related party transactions

A. Entities affiliated with Blackstone

In January 2018, Gates and Blackstone Management Partners L.L.C. ("BMP") and Blackstone Tactical Opportunities Advisors L.L.C., each affiliates of our Sponsor (the "Managers"), entered into a new Transaction and Monitoring Fee Agreement (the "New Monitoring Fee Agreement"). Under this agreement, Gates Industrial Corporation plc and certain of its direct and indirect subsidiaries (collectively the "Monitoring Service Recipients") engaged the Managers to provide certain monitoring, advisory and consulting services in the following areas:

- advice regarding financings and relationships with lenders and bankers;
- advice regarding the selection, retention and supervision of independent auditors, outside legal counsel, investment bankers and other advisors or consultants;
- advice regarding environmental, social and governance issues pertinent to our affairs;
- advice regarding the strategic direction of our business; and
- such other advice directly related to or ancillary to the above advisory services as we may reasonably request.

In consideration of these oversight services, Gates agreed to pay BMP an annual fee of 1% of a covenant EBITDA measure defined under the agreements governing our senior secured credit facilities. In addition, the Monitoring Service Recipients agreed to reimburse the Managers for any related out-of-pocket expenses incurred by the Managers and their affiliates. During the year ended December 28, 2019, Gates incurred $6.5 million, compared with $8.0 million during Fiscal 2018 and $6.7 million during Fiscal 2017, in respect of these oversight services and out-of-pocket expenses, of which there was no amount owing at December 28, 2019 or December 29, 2018.

The New Monitoring Fee Agreement terminates upon the earlier to occur of (i) the second anniversary of the closing date of the initial public offering of Gates or (ii) the date our Sponsor beneficially owns less than 5% of our ordinary shares and such shares have a fair market value of less than $25.0 million. Following termination of the New Monitoring Fee Agreement, the Managers will refund us any portion of the monitoring fee previously paid in respect of fiscal quarters that follow the termination date.

In addition, in connection with the initial public offering, we entered into a new Support and Services Agreement with BMP, under which Gates Industrial Corporation plc and certain of its direct and indirect subsidiaries reimburse BMP for customary support services provided by Blackstone's portfolio operations group to the Company at BMP's direction. BMP will invoice the Company for such services based on the time spent by the relevant personnel providing such services during the applicable period and Blackstone's allocated costs of such personnel. During Fiscal 2019, $0.1 million was paid under this agreement, compared with $0 during Fiscal 2018 and Fiscal 2017. This agreement terminates on the date our Sponsor beneficially owns less than 5% of our ordinary shares and such shares have a fair market value of less than $25.0 million, or such earlier date as may be chosen by Blackstone.

In connection with our initial public offering in January 2018, Blackstone Advisory Partners L.P., an affiliate of Blackstone, received underwriting fees of $3.2 million. In addition, Blackstone Advisory Partners L.P. served as an initial purchaser of $99.4 million of the 6.25% Dollar Senior Notes issued in November 2019 and received compensation of $1.2 million in connection therewith.

B. Commercial transactions with sponsor portfolio companies

Our Sponsor and its affiliates have ownership interests in a broad range of companies. We have entered and may in the future enter into commercial transactions in the ordinary course of our business with some of these companies, including the sale of goods and services and the purchase of goods and services.

During the periods presented, our Sponsor held an interest in Custom Truck One Source ("Custom Truck"), a single-source provider of specialized truck and heavy equipment solutions in North America. Net sales by Gates to Custom Truck were $0.2 million during Fiscal 2019, compared with $0 during Fiscal 2018 and Fiscal 2017.

In addition, during the period through to November 2, 2017, Blackstone held a controlling interest in Alliance Automotive Group ("Alliance"), a wholesale distributor of automotive parts in France and the U.K. Net sales by Gates to affiliates of Alliance during the portion of Fiscal 2017 in which Blackstone controlled Alliance were $27.2 million.

C. Equity method investees

Sales to and purchases from equity method investees were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Sales	$ 1.4	$ 1.6	$ 1.8
Purchases	$ (15.4)	$ (15.2)	$ (9.8)

Amounts outstanding in respect of these transactions were payables of $0.2 million as of December 28, 2019, compared with $0.1 million as of December 29, 2018. During the year ended December 28, 2019, we received dividends of $0 from our equity method investees, compared with $0.4 million during Fiscal 2018 and $0.3 million during Fiscal 2017.

D. Non-Gates entities controlled by non-controlling shareholders

Sales to and purchases from non-Gates entities controlled by non-controlling shareholders were as follows:

(dollars in millions)	For the year ended December 28, 2019	December 29, 2018	December 30, 2017
Sales	$ 51.3	$ 60.6	$ 55.2
Purchases	$ (20.5)	$ (20.7)	$ (21.7)

Amounts outstanding in respect of these transactions were as follows:

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Receivables	$ 4.2	$ 0.6
Payables	$ (5.9)	$ (0.3)

E. Majority-owned subsidiaries

We finalized an agreement with the non-controlling interest holder in certain of our consolidated, majority-owned subsidiaries, regarding the scope of business of such subsidiaries, which will result in a smaller share of net income allocated to non-controlling interests. This change is retrospectively effective from the beginning of 2019 and includes a one-time adjustment of $15.0 million, which has been recorded in the first quarter of 2019 in the non-controlling interests line in the consolidated statement of operations.

25. Commitments and contingencies

A. Capital and other commitments

As of December 28, 2019, we had entered into contractual commitments for the purchase of property, plant and equipment amounting to $5.3 million, compared with $18.8 million as of December 29, 2018, and for the purchase of non-integral computer software amounting to $1.9 million, compared with $2.5 million as of December 29, 2018. As of December 28, 2019, we had entered into contractual commitments for non-capital items such as raw materials and supplies amounting to $33.7 million, compared with $32.2 million as of December 29, 2018.

B. Performance bonds, letters of credit and bank guarantees

As of December 28, 2019, letters of credit were outstanding against the asset-backed revolving facility amounting to $50.1 million, compared with $57.8 million as of December 29, 2018. We had additional outstanding performance bonds, letters of credit and bank guarantees amounting to $4.1 million as of December 28, 2019, compared with $3.4 million as of December 29, 2018.

C. Company–owned life insurance policies

Gates is the beneficiary of a number of corporate-owned life insurance policies against which it borrows from the relevant life insurance company. As of December 28, 2019, the surrender value of the policies was $933.8 million, compared with $930.0 million as of December 29, 2018, and the amount outstanding on the related loans was $932.0 million, compared with $928.2 million as of December 29, 2018. For financial reporting purposes, these amounts are offset as a legal right of offset exists and the net receivable of $1.8 million, compared with $1.8 million as of December 29, 2018, is included in other receivables.

D. Contingencies

The Company is, from time to time, party to general legal proceedings and claims, which arise in the ordinary course of business including those relating to environmental obligations, product liability, intellectual property, commercial and contractual disputes, employment matters and other business matters. When appropriate, management consults with legal counsel and other appropriate experts to assess claims. If, in management's opinion, we have incurred a probable loss as set forth by GAAP, an estimate is made of the loss and the appropriate accrual is reflected in our consolidated financial statements. Currently, there are no material amounts accrued. While it is not possible to quantify the financial impact or predict the outcome of all pending claims and litigation, management does not anticipate that the outcome of any current proceedings or known claims, either individually or in aggregate, will materially affect Gates' financial position, results of operations or cash flows.

E. Allowance for doubtful accounts

Movements in our allowance for doubtful accounts were as follows:

(dollars in millions)	Balance at beginning of year	Charged to net income	Deductions	Foreign currency translation	Balance at end of year
2017	$ 3.4	$ 3.7	$ (0.8)	$ 0.5	**$ 6.8**
2018	$ 6.8	$ 1.4	$ (0.5)	$ (0.3)	**$ 7.4**
2019	$ 7.4	$ 2.4	$ (1.3)	$ 0.1	**$ 8.6**

26. Subsequent event

The first quarter of 2020 marked the beginning of an unprecedented environment for the global economy, as governments, companies and communities implemented strict measures to minimize the spread of the COVID-19 pandemic. We are prioritizing the health and safety of our employees and the communities around the world in which we operate, taking additional protective measures in our plants to safely maintain operational continuity in support of our global customer base.

In early February, as our business in China was being impacted, we mobilized a centralized crisis response team that developed and is tactically engaged in the implementation of our countermeasure actions across our global footprint. We are adhering to local government mandates and guidance provided by health authorities and have proactively implemented quarantine protocols, social distancing policies, working from home arrangements, travel suspensions, frequent and extensive disinfecting of our workspaces, provision of personal protective equipment, and mandatory temperature monitoring at our facilities. We expect to continue to implement these measures and we may take further actions if required or recommended by government authorities or if we determine them to be in the best interests of our employees, customers, and suppliers.

Our operations are supported largely by local supply chains. Where necessary, we have taken steps to qualify additional suppliers to ensure we are able to maintain continuity of supply. Although we have not experienced any significant disruptions to date, certain of our suppliers have, or may in the future, temporarily close operations, delay order fulfillment or limit production due to the pandemic. Continued disruptions, shipping delays or insolvency of key vendors in our supply chain could make it difficult or more costly for us to obtain the raw materials or other inputs we need for our operations.

Gates employs an in-region, for-region manufacturing strategy, under which local operations primarily support local demand. In those cases where local production supports demand in other regions, contingency plans have been activated as appropriate. In addition to the handful of plants that were temporarily closed by government mandates, we have proactively managed our output to expected demand levels and occasionally suspended production at other plants for short periods of time. We may continue to experience these production disruptions, which could place constraints on our ability to produce our products and meet customer demand. Of these temporary closures in the first quarter, the most significant for us was in Greater China, where we closed all of our production facilities for approximately three weeks. We have since safely returned these plants to more normalized capacity. Our two largest regions of Europe and North America did not begin to see an impact from COVID-19 until late March. With large portions of the economies in these regions having effectively been shut down since the beginning of April, we expect the second quarter to be the most difficult of the year, with core revenue likely to sequentially decline in the range of 15-25% compared with the first quarter.

As shelter-in-place requirements ease and there is continued progress in the fight against COVID-19, we expect the second half of the year to improve sequentially from the second quarter. Given the magnitude of the decline we expect to experience in the first half of the year and the different rates of demand recovery we believe we will see across different end markets and geographies, we expect the full year to result in a revenue decline compared with the prior year. Reflecting the progress we made last year in right-sizing the business, we would expect our full-year decremental margin to be an improvement from what we saw in 2019, despite the relatively unexpected and significant decline in revenue as a result of the pandemic.

We have strength and flexibility in our liquidity position, which includes committed borrowing headroom of $440.3 million under our lines of credit (none of which are currently expected to be drawn in the foreseeable future), in addition to cash balances of $626.3 million as of March 28, 2020. Our business also has a demonstrated ability to generate free cash flow even in challenging environments.

As a result of the unpredictable and evolving impact of the pandemic and measures being taken around the world to combat its spread, the timing and trajectory of the recovery are unclear at this time, and the adverse impact of the pandemic on Gates' operations may be material.

Despite this highly uncertain environment, our experience in China and subsequently has helped frame our response to this crisis and our focus in 2020 will continue to be on:

- safely supporting our employees, customers and the communities in which we operate;
- actively managing what we can control in terms of our supply chains and operations;
- managing our compressible spending to the prevailing demand conditions by tightly controlling discretionary spending; and
- funding our key growth initiatives to enhance our differentiation in the market and allow us to emerge from this downturn in an even stronger competitive position.

Gates Industrial Corporation plc

Parent Company Balance Sheets

(dollars in millions)	Notes	As of December 28, 2019	As of December 29, 2018
Non-current assets			
Investments in subsidiaries	*3*	$ 1,679.8	$ 1,669.7
Trade and other receivables	*4*	3,960.4	3,799.7
Deferred tax assets		0.1	0.1
		5,640.3	**5,469.5**
Current assets			
Cash and cash equivalents		1.5	—
Trade and other receivables	*4*	181.5	149.0
		183.0	**183.0**
Total assets		**5,823.3**	**5,618.5**
Current liabilities			
Income tax liabilities		(1.8)	(21.2)
Trade and other payables	*5*	(27.8)	(11.0)
Total liabilities		**(29.6)**	**(32.2)**
Net assets		**$ 5,793.7**	**$ 5,586.3**
Capital and reserves			
Ordinary share capital	*7*	$ 2.9	$ 2.9
Share premium	*7*	0.2	788.8
Merger reserve	*8*	—	4,661.6
Accumulated surplus		5,790.6	133.0
Shareholders' equity		**$ 5,793.7**	**$ 5,586.3**

Gates Industrial Corporation plc reported a profit for the year ended December 28, 2019 of $190.7 million, compared with a profit of $127.0 million for the period from incorporation on September 25, 2017 to December 29, 2018.

The accompanying notes form an integral part of these financial statements.

The financial statements of Gates Industrial Corporation plc (registered number 10980824) were approved by the board of directors and authorized for issue on May 6, 2020. They were signed on its behalf by:

Ivo Jurek
Director and Chief Executive Officer

Gates Industrial Corporation plc

Parent Company Statement of Changes in Equity

(dollars in millions)	*Notes*	Share capital	Share premium	Merger reserve	Accumulated surplus	Total
Balance as of incorporation on September 25, 2017		$ —	$ —	$ —	$ —	$ —
Share-for-share exchange	*7,8*	2.5	—	4,661.6	—	4,664.1
Issuance of shares	*7*	0.4	788.2	—	—	788.6
Shares issued on exercise of share options	*7*	—	0.6	—	—	0.6
Profit for the period attributable to equity shareholders		—	—	—	127.0	127.0
Capital contribution to subsidiaries		—	—	—	5.7	5.7
Credit to equity for share-based compensation		—	—	—	0.3	0.3
Balance as of December 29, 2018		**2.9**	**788.8**	**4,661.6**	**133.0**	**5,586.3**
Shares issued on exercise of share options	*7*	—	1.8	—	—	1.8
Profit for the period attributable to equity shareholders		—	—	—	190.7	190.7
Capital reduction	*7,8*	—	(790.4)	(4,661.6)	5,452.0	—
Capital contribution to subsidiaries		—	—	—	14.5	14.5
Credit to equity for share-based compensation		—	—	—	0.4	0.4
Balance as of December 28, 2019		**$ 2.9**	**$ 0.2**	**$ —**	**$ 5,790.6**	**$ 5,793.7**

Gates Industrial Corporation plc

Notes to the Parent Company Financial Statements

1. Background

Gates Industrial Corporation plc (the "Parent Company") is a public company limited by shares and is incorporated in the United Kingdom under the Companies Act 2006. It is registered in England and Wales and is listed on the New York Stock Exchange. The Parent Company was incorporated on September 25, 2017 and its registered office is 1 Bartholomew Lane, London, EC2N 2AX, United Kingdom. Its registered number is 10980824.

In these financial statements and related notes, all references to the "Company", "Gates", "we", "us", "our" refer, unless the context requires otherwise, to the Parent Company and its subsidiaries.

The nature of the operations and principal activities of Gates are set out in the Strategic Report accompanying these financial statements. The Parent Company's principal activity is to act as a holding company for Gates.

These financial statements are presented in U.S. dollars which is the currency of the primary economic environment in which the Parent Company operates.

2. Principal accounting policies

A. Basis of presentation

The Parent Company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100 "*Application of Financial Reporting Requirements*" issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 "*Reduced Disclosure Framework*".

As permitted by FRS 101, the Parent Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets and share capital, presentation of a cash flow statement, standards not yet effective, the requirements of paragraphs 91 - 99 of IFRS 13 "*Fair Value Measurement*", the requirements of paragraphs 10(d), 10(f) and 134 -136 of IAS 1 "*Presentation of Financial Statements*", impairment of assets and certain related party transactions, including compensation of key management personnel.

Where relevant, equivalent disclosures have been given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

There were no critical accounting judgments that would have a significant effect on the amounts recognized in these financial statements or key sources of estimation uncertainty as of the balance sheet date that would have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities within the next financial year.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Parent Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of International Financial Reporting Standard 2 "*Share-based payment.*"

As permitted by s408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the Parent Company. The profit attributable to the Parent Company is disclosed in the footnote to the Parent Company's balance sheet. There were no other gains or losses in the period in other comprehensive income.

B. Accounting periods

The Parent Company prepares its annual financial statements as of the Saturday nearest December 31. Accordingly, the Parent Company balance sheet is presented as of December 28, 2019 and December 29, 2018 and the related statement of changes in equity is presented for the year ended December 28, 2019 and the period from incorporation on September 25, 2017 to December 29, 2018.

C. Going concern

The Company's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also describes the financial position of the Company, its cash-flows, liquidity position and borrowing facilities, the Company's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Parent Company meets its day to day working capital requirements through access to funds from its subsidiaries. The directors have evaluated the principal risks and considered the business forecasts and downside modeling discussed in the Directors' Report regarding the continuing impacts on the Parent Company and its subsidiaries resulting from the COVID-19 pandemic, including the possible impacts on liquidity. The Parent Company's forecasts and projections, including those of its subsidiaries on a consolidated basis, show that it should be able to operate within the level of support available to it. Based on these evaluations, the directors have a reasonable expectation that the Parent Company has adequate resources and support to continue in operational existence for the foreseeable future, and therefore continue to adopt the going concern basis of accounting in preparing these financial statements.

D. Investments in subsidiaries

Investments in subsidiaries represent interests in the Parent Company's subsidiaries that are owned directly by it and are stated at cost less any provision for impairment.

E. Share-based compensation

Share-based compensation has been provided to certain of our employees under share option, bonus and other share award plans. All share-award plans are equity settled.

We recognize compensation expense based on the fair value of the awards, measured using either the share price on the date of grant, a Black-Scholes option-pricing model or a Monte-Carlo valuation model, depending on the nature of the award. Fair value is determined at the date of grant and reflects market and performance conditions and all non-vesting conditions.

Generally, the compensation expense for each separately vesting portion of the award is recognized on a straight-line basis over the vesting period for that portion of the award based on the Parent Company's estimate of equity instruments that will eventually vest. Compensation expense is recognized for awards containing performance conditions only to the extent that it is probable that those performance conditions will be met.

Fair value is not subsequently remeasured unless the conditions on which the award was granted are modified. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or performance conditions. The impact of revisions to the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

The fair value of the compensation given to employees of subsidiaries in the form of awards over the Parent Company's equity instruments is recognized as a capital contribution to those subsidiaries over the vesting period. The capital contribution is reduced by any payments received from the subsidiaries in respect of these share-based payments.

F. Income taxes

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted by the balance sheet date.

G. Financial instruments

Financial assets and financial liabilities are recognized in the Parent Company's balance sheet when it becomes a party to the contractual provisions of the instrument.

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

Financial assets

Financial assets are initially recorded at fair value net of transaction costs. The Parent Company classifies its financial assets as loans and receivables, except for derivative financial instruments which are accounted for at fair value through profit or loss.

Loans and receivables, which comprise trade receivables and other receivables which have fixed or determinable payments, are measured at amortized cost, using the effective interest method, less impairment.

Trade and other receivables are short-term in nature and hence the recognition of interest would be immaterial.

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

All the Parent Company's financial liabilities are classified as other financial liabilities. Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost, using the effective interest method, with interest expense recognized on an effective yield basis, except where such liabilities are short-term in nature and the recognition of interest would be immaterial.

Interest income and finance costs

Interest income and expense are credited or charged to the profit and loss account, using the effective interest method, during the year in which they are earned or incurred.

3. Investments in subsidiaries

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Cost and net book value		
Balance at beginning of the period	$ 1,669.7	$ —
—Additions	10.1	6,333.8
—Disposals	—	(4,664.1)
Balance at the end of the period	**$ 1,679.8**	**$ 1,669.7**

As discussed further in note 7, on January 29, 2018, the Parent Company acquired all of the issued share capital of Omaha Topco. All of the issued share capital of Omaha Topco was subsequently disposed of by contributing it to the Parent Company's wholly-owned direct subsidiary, Gates Industrial Holdco Limited for 2 new ordinary shares for a consideration of $1,664.0 million and a $3.0 billion loan note.

A complete list of the Parent Company's direct and indirect subsidiaries is set out in note 9.

4. Trade and other receivables

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Current assets		
Receivables due from subsidiaries	$ 181.5	$ 149.0
Non-current assets		
Receivables due from subsidiaries	3,960.4	3,799.7
	$ 4,141.9	**$ 3,948.7**

Receivables due from subsidiaries

The amounts owed by subsidiaries that are classified as non-current assets relate to loan notes that were issued in January 2018 and which are repayable in January 2021. These amounts bear interest at floating rates based on prevailing market interest rates.

5. Trade and other payables

(dollars in millions)	As of December 28, 2019	As of December 29, 2018
Current liabilities		
Payables due to subsidiaries	$ (27.4)	$ (11.0)
Accruals and other payables	(0.4)	—
	$ (27.8)	**$ (11.0)**

6. Share-based compensation

The Parent Company operates stock-based incentive plans over its shares to provide incentives to Gates' senior executives and other eligible employees. During the year ended December 28, 2019, the total compensation cost for share-based arrangements recognized by the Parent Company was $0.4 million, compared with $0.3 million during the prior period.

Share-based incentive awards issued under the 2014 Omaha Topco Ltd. Stock Incentive Plan

Gates has a number of awards issued under the 2014 Omaha Topco Ltd. Stock Incentive Plan, which was assumed by the Parent Company and renamed the Gates Industrial Corporation plc Stock Incentive Plan in connection with our initial public offering in January 2018. No new awards have been granted under this plan since 2017. The options are split equally into four tiers, each with specific vesting conditions. The Parent Company's non-executive directors were issued only Tier I options, which vest evenly over 5 years from the grant date, subject to the participant continuing to provide service to Gates on the vesting date. No Tier II, III or IV awards were issued to or are held by the Parent Company's employees or directors in their capacity as directors. All the options granted under this plan expire ten years after the date of grant. During the period ended December 28, 2019, there were no changes in the number of awards issued under the Omaha Topco option plan. Details of options granted under this plan in previous periods are set out in the table below.

Share-based incentive awards issued under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan

In conjunction with the initial public offering in January 2018, Gates adopted a new equity-based compensation plan, which is a market-based long-term incentive program that allows for the issue of a variety of equity-based and cash-based awards, including stock options, performance awards and restricted stock units ("RSUs").

The RSUs issued under this plan to the Parent Company's non-executive directors vest one year from the date of grant, subject to the participant continuing to serve in their position through to the applicable vesting date. RSUs are valued at the share price on the date of grant.

New awards and movements in existing awards granted under this plan to the Parent Company's non-executive directors are summarized in the tables below.

Summary of movements in options outstanding

	For the year ended December 28, 2019		For the period ended December 29, 2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at the beginning and end of the period:				
—Tier I	152,586	$ 6.56	152,586	$ 6.56
	152,586	**$ 6.56**	**152,586**	**$ 6.56**
Exercisable at the end of the period	122,068	$ 6.56	76,293	$ 6.56
Vested and expected to vest at the end of the period	152,586	$ 6.56	152,196	$ 6.56

As of December 28, 2019, the aggregate intrinsic value of options that were vested or expected to vest was $1.1 million and these options had a weighted-average remaining contractual term of 5.7 years. As of December 28, 2019, the aggregate intrinsic value of options that were exercisable was $0.9 million and these options had a weighted-average remaining contractual term of 5.5 years.

As of December 28, 2019, the unrecognized compensation relating to the nonvested options was $0.1 million, which is expected to be recognized over a weighted-average period of 1.4 years.

Summary of movements in RSUs outstanding

	For the year ended December 28, 2019		For the period ended December 29, 2018	
	Number of awards	Weighted average grant date fair value $	Number of awards	Weighted average grant date fair value $
Outstanding at the beginning of the period	23,380	$ 17.11	—	$ —
Granted during the period	30,511	$ 16.39	23,380	$ 17.11
Forfeited during the period	(11,718)	$ 17.07	—	$ —
Vested during the period	(23,812)	$ 16.80	—	$ —
Outstanding at the end of the period	**18,361**	**$ 16.34**	**23,380**	**$ 17.11**

As of December 28, 2019, the unrecognized compensation relating to nonvested RSUs was $0.1 million, which is expected to be recognized over a weighted average period of 0.2 years. The total fair value of RSUs vested during the year ended December 28, 2019 was $0.4 million; no RSUs vested during the year ended December 29, 2018.

7. Equity

The Parent Company has one class of authorized and issued shares, with a par value of $0.01 and each share has equal voting rights but carry no right to fixed income. Total authorized share capital as of December 28, 2019 was 3,000,000,000 with a nominal value of $30,000,000.

On September 25, 2017, the Parent Company was incorporated by the issuance of 1 ordinary share of $0.01 at par.

On September 26, 2017, the Parent Company issued at par 1 redeemable preference share with a nominal value of £50,000, satisfied by an undertaking to pay that was subsequently settled. The redeemable preference share was subsequently redeemed on January 29, 2018. It carried a right to receive a fixed, non-cumulative preference dividend of 2% per annum on the amounts paid up, accruing with effect from July 25, 2018. The fixed, non-cumulative preference dividend was payable solely at the discretion of the board of directors of the Parent Company. Redemption could take place at any time at the discretion of the board of directors, or at the request of the holder of the redeemable preference share, following any reduction of capital of the Parent Company becoming effective. Upon redemption, the Parent Company was to pay to the holder the nominal amount paid up on the redeemable preference share together with, at the sole discretion of the board of directors of the Parent Company all accrued but unpaid dividends. The preference shareholder had preferential rights in the event of a return of capital on liquidation or otherwise for repayment of the amounts paid up together with all accrued but unpaid dividends. The preference shareholder had limited voting rights, restricted to resolutions to wind up the Parent Company or to vary the rights of the redeemable preference shares.

On January 29, 2018, the Parent Company transferred its existing share and issued a further 245,474,604 ordinary shares for $19.00 per share, amounting to $4,664.1 million in exchange for all of the issued share capital of Omaha Topco. All of the issued share capital of Omaha Topco was subsequently contributed to the Parent Company's wholly-owned direct subsidiary, Gates Industrial Holdco Limited for 2 new ordinary shares for a consideration of $1,664.0 million and a $3.0 billion loan note.

Also on January 29, 2018, the Parent Company completed an initial public offering of 38,500,000 ordinary shares at a public offering price of $19.00 per share, amounting to $731.5 million.

On February 5, 2018 the underwriters of the initial public offering exercised in full their over-allotment option for a further 5,775,000 shares for a cash consideration of $19.00 per share, amounting to $109.7 million.

In connection with these transactions, we incurred costs of $52.6 million related directly to the issue of ordinary shares. These costs have been recognized as a reduction to the share premium arising on those share issuances.

During August 2019, the High Court of Justice in London sanctioned a reduction in the Parent Company's statutory capital for the purpose of creating distributable reserves by approving the cancellation of deferred shares that were issued out of the merger reserve, and the cancellation of the entire amount standing to the credit of the Parent Company's share premium account at the time, creating $5.5 billion of distributable reserves.

Movements in the Parent Company's number of shares outstanding, share capital and share premium for the period from incorporation to December 28, 2019 were as follows:

(dollars in millions except share numbers)	Number of ordinary shares	Ordinary share capital	Share premium	Total
On incorporation	1	$ —	$ —	$ —
Share-for-share exchange	245,474,604	2.5	—	**2.5**
Issuance of shares	44,275,000	0.4	788.2	**788.6**
Exercise of share options	79,014	—	0.6	**0.6**
Vesting of restricted stock units	18,955	—	—	—
Balance as of December 29, 2018	**289,847,574**	**2.9**	**788.8**	**791.7**
Exercise of share options	270,997	—	1.8	**1.8**
Vesting of restricted stock units	38,728	—	—	—
Capital reduction	—	—	(790.4)	**(790.4)**
Balance as of December 28, 2019	**290,157,299**	**$ 2.9**	**$ 0.2**	**$ 3.1**

8. Other reserves

(dollars in millions)	Merger reserve	Accumulated surplus
Balance as of the beginning of the period	$ —	$ —
Share-for-share exchange	4,661.6	—
Profit for the period attributable to equity shareholders	—	127.0
Capital contribution to subsidiaries	—	5.7
Credit to equity for share-based compensation	—	0.3
Balance as of December 29, 2018	**4,661.6**	**133.0**
Profit for the period attributable to equity shareholders	—	190.7
Capital reduction	(4,661.6)	5,452.0
Capital contribution to subsidiaries	—	14.5
Credit to equity for share-based compensation	—	0.4
Balance as of December 28, 2019	**$ —**	**$ 5,790.6**

As described further in note 7, in January 2018, in conjunction with the initial public offering of its shares, the Company undertook a share-for-share exchange such that Gates Industrial Corporation plc now owns indirectly all of the equity interests in Omaha Topco, and the Parent Company has become the ultimate parent company of the Gates business. As a result of this share-for-share exchange, a merger reserve of $4,661.6 million was recognized.

During August 2019, the High Court of Justice in London sanctioned a reduction in the Parent Company's statutory capital for the purpose of creating distributable reserves by approving the cancellation of the deferred shares that were issued out of the merger reserve, and the cancellation of the entire amount standing to the credit of the Parent Company's share premium account, creating $5.5 billion of distributable reserves.

9. Listing of subsidiaries and associates

The following entities are included in the consolidated financial statements of the Company as of December 28, 2019. There are no subsidiaries excluded from consolidation. All entities listed below are indirectly held, with the exception of Gates Industrial Holdco Limited.

Name	Ownership Interest	Jurisdiction of Organization or Incorporation	Nature of Business	Registered Address
Gates Argentina S.A.	100%	Argentina	Sales office and warehouse	Avd. Del Libertador 498 Piso 20 Sector Norte Capital Federal, Buenos Aires ABR CP C1001
Gates Australia Pty, Limited	100%	Australia	Wholesaler of industrial and automotive hose, belts and fittings	1-15 Hydrive Close Dandenong South Victoria 3175
Gates Engineering & Services Australia Pty Ltd	100%	Australia	Wholesaler of industrial and automotive hose, belts and fittings	101 Sheffield Road Welshpool Western Australia 6106
Gates E&S Bahrain WLL	49% *	Bahrain	Repair and sale of machinery, equipment and parts	Flat 1, Street 1638, Building 2141, Block 116, Hidd, Bahrain
Gates Distribution Centre N.V.	100%	Belgium	Distribution center	Korte Keppesstraat 21/51 9320 Erembodegem-Aalst Oost-Vlaanderen
Gates do Brasil Industria e Commercio Ltda	100%	Brazil	Manufacturer and distributor of Power Transmission and Fluid Power products	1703, Florida Street - 11th Floor Sao Paolo Brazil 04565-909
Gates Fleximak Ltd	100%	British Virgin Islands	Holding company	c/o Intertrust BVI 171 Main Street Road Town Tortola VG1110

Name	Ownership Interest	Jurisdiction of Organization or Incorporation	Nature of Business	Registered Address
Atlas Hydraulics Inc.	100%	Canada	Design, manufacture and supply of hydraulic tube and hose assemblies	66 Wellington Street W., Suite 5300, Toronto, ON M5K 1E6
Gates Canada Inc.	100%	Canada	Power Transmission product manufacturing and distribution	4000-421 7th Avenue SW Calgary Alberta T2P4K9 Canada
Gates Industrial Canada Ltd	100%	Canada	Corporate functions	66 Wellington Street W., Suite 5300, Toronto, ON M5K 1E6
Gates Cayman Finance Ltd.	100%	Cayman Islands	Structure company	190 Elgin Avenue, George Town, Grand Cayman KY1-9005
Omaha Topco Ltd	100%	Cayman Islands	Corporate functions	190 Elgin Avenue, George Town, Grand Cayman KY1-9005
Gates Auto Parts (Suzhou) Co., Ltd	100%	China	Power Transmission product manufacturing and distribution	B1 North Standard Workshop Louzhong Road Suzhou Industrial Park Suzhou
Gates Fluid Power Technologies (Changzhou) Co., Ltd	100%	China	Manufacturer and distributor of Power Transmission and Fluid Power products	#11 Kohler Road Changzhou JiangSu 213022
Gates Trading (Shanghai) Co., Ltd.	100%	China	Corporate offices and distribution	Room 2215 No.28 Jiafeng Road, Waigaoqiao Free Trade Zone, Shanghai
Gates Unitta Power Transmission (Shanghai) Limited	51%	China	Power Transmission product manufacturing	No. 15 Hai Tang Street Suzhou Industrial Park Suzhou 215021
Gates Unitta Power Transmission (Suzhou) Limited	51%	China	Corporate functions and Power Transmission product manufacturing and distribution	No. 15 Hai Tang Street Suzhou Industrial Park Suzhou 215021
Gates Winhere Automotive Pump Products (Yantai) Co. Ltd	60%	China	Manufacture of automotive water pumps and accessories	51 Jialingjiang Road Yantai ETDZ, 264006 Shandong
Gates Hydraulics s.r.o	100%	Czech Republic	Manufacture and supply of couplings, hose and tube assemblies	Detmarovicka 409/1 Karvina 733 01
Gates France S.a.r.l.	100%	France	Sales/service center	2 Rue de la Briqueterie Zone Industrielle Louvres, B.P. 37 F-95380 Louvres
Gates S.A.S.	100%	France	Manufacture of belts	2 Rue de la Briqueterie Zone Industrielle Louvres, B.P. 37 F-95380 Louvres
Gates Service Center S.A.S.	100%	France	Distribution of belts and metal parts	21 Boulevard Monge F-69330 Meyzieu Lyon
Gates Tube Fittings GmbH	100%	Germany	Manufacture of hydraulic fittings	Kolumbusstrasse 54 Euskirchen NRW D-53881
Gates Gmbh	100%	Germany	Sales office and technical center	Eisenbahnweg 50 D-52068 Aachen
Gates Holding GmbH	100%	Germany	Holding company	Kolumbusstrasse 54 Euskirchen NRW D-53881
Gates TPU Gmbh	100%	Germany	Manufacture of polyurethane belts	Werner von Siemens Strasse 2 Pfungstadt , Germany 64319

Name	Ownership Interest	Jurisdiction of Organization or Incorporation	Nature of Business	Registered Address
Gates India Private Limited	100%	India	Manufacture and assembly of industrial and hydraulic hose and assembly	Village Sarsani Lalru Ambala-Chandigarh Highway Lalru District Patiala (Punjab) 140501
Gates Unitta India Company Private Limited	51%	India	Manufacture and distribution of Power Transmission products	F-19, Sipcot Industrial Park Sriperumbudur Chennai 602105
PT Gates Industrial Indonesia	100%	Indonesia	Dormant company	Jl. T.B. Simatupang Kav 23-24, Alamanda Tower PT Karya Central Bisnis, M15, Floor 25, Indonesia
Gates Irish Finance UC	100%	Ireland	Structure company	1-2 Victoria Buildings, 2nd Floor, Haddington Road Dublin 4 D04 XN32, Ireland
Tomkins Insurance Limited	100%	Isle of Man	Captive insurance company	Suite 2, 4th Floor Peveril Buildings Loch Promenade Douglas IM1 2BS
Gates S.r.l.	100%	Italy	Sales office	Via Senigalia 18 I-20161 Milano
Gates Japan KK	100%	Japan	Sales office	20-9, Akatsukashinmachi 3-chome Itabashi-ku Tokyo
Gates Unitta Asia Company	51%	Japan	Manufacture of belts, tensioners and associated products	4-26 Sakuragawa 4-chome Naniwa-ku Osaka 556-002
Gates Korea Company, Limited	51%	Korea	Manufacture and distribution of belts and tensioners	29-195, Bonri-ri, Nongong-eup Dalsung-gun Daegu-si Republic of Korea
Gates Unitta Korea Co., Ltd.	51%	Korea	Sales office	1006-71, Doksan-dong Keumcheon-gu Seoul
Pyung Hwa CMB Co. Limited **	21%	Korea	Manufacturer of industrial non-hardening rubber products	29-11, Bonri-Ri, Nongong-Eup Dalseong-Gun Daegu, Korea, Republic of, Republic of Korea
Gates Holding Luxembourg SARL	100%	Luxembourg	Holding company	16, Boulevard d'Avranches L-1160 Luxembourg
Gates Industrial Europe SARL	100%	Luxembourg	Holding company and European corporate center	16, Boulevard d'Avranches L-1160 Luxembourg
Gates Investments SARL	100%	Luxembourg	Holding company	16, Boulevard d'Avranches L-1160 Luxembourg
Gates Luxembourg SARL	100%	Luxembourg	Structure company	16, Boulevard d'Avranches L-1160 Luxembourg
Gates Worldwide SARL	100%	Luxembourg	Holding company	16, Boulevard d'Avranches L-1160 Luxembourg
Gates Worldwide Holdings SARL	100%	Luxembourg	Holding company	16, Boulevard d'Avranches L-1160 Luxembourg
Gates Industrial & Automotive (Malaysia) SDN. BHD.	100%	Malaysia	Distribution center	Suite 2-4, Level 2, Tower Block, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia
Industrias Atlas Hydraulics S de RL de CV	100%	Mexico	Design, manufacture and supply of hydraulic tube and hose assemblies	Paseo de Tamarindos 150-PB Bosques de las Lomas Cuajimalpa de Morelos México, D.F. 05120 Mexico
Lerma Hose Plant S.A. de C.V.	100%	Mexico	Manufacture and sale of industrial hoses	Blvd. Aeropuerto Miguel Aleman Nro. 164 Zona Industrial Lerma 50200 Mexico D.F.

Name	Ownership Interest	Jurisdiction of Organization or Incorporation	Nature of Business	Registered Address
Gates de Mexico, S.A. de C.V.	100%	Mexico	Manufacture and sale of hoses, connectors and other industrial and automotive products	Av. Vasco de Quiroga No. 3200, Piso 1. Centro Ciudad Santa Fe, Mexico, D.F. 01210 Mexico
Gates de Mexico Services, S. de R.L. de C.V.	100%	Mexico	Marketing shared service center	Av. Vasco de Quiroga No. 3200, Piso 1. Centro Ciudad Santa Fe, Mexico, D.F. 01210 Mexico
Gates E&S Mexico, S.A. de C.V.	100%	Mexico	Sale of oil & gas products and engineering services	Carretera Reforma Dos Bocas KM 17+920, Circuito Tabasco Sur M2, L4, 5, 6,Tabasco, Mexico, Mexico
Servicios IAHS S de RL de CV	100%	Mexico	Design, manufacture and supply of hydraulic tube and hose assemblies	Paseo de Tamarindos 150-PB Bosques de las Lomas Cuajimalpa de Morelos México, D.F. 05120 Mexico
Gates Engineering & Services (Muscat) LLC	70%	Oman	Sale and maintenance of hose and accessory products	P.O. Box 68 Madinat Sultan Qaboos Postal Code 115 Muscat Sultanate of Oman
Gates Business Services Europe sp. z o.o.	100%	Poland	Corporate functions	ul. Fabryczna 6 52-007 Wroclaw
Gates Polska Sp. z o.o.	100%	Poland	Manufacture of hose products	ul. Jaworzynska 301 59-220 Legnica
Gates CIS LLC	100%	Russian Federation	Wholesale and distribution	Kosmodamianskaya Nab., 52, Bld. 4, 6th Floor Moscow 115054
Gates Engineering & Services Co. Closed Joint Stock Company	75%	Saudi Arabia	Manufacture of tensioners and other Power Transmission products	P.O. Box 4258 Dammam 3191 Kingdom of Saudi Arabia
Gates Engineering & Services PTE Limited	100%	Singapore	Oil & Gas Engineering & Services	3A International Business Park #10-01/05 ICON@IBP, Tower A
Gates Industrial Singapore PTE. LTD.	100%	Singapore	Holding company and corporate offices	3A International Business Park #10-01/05 ICON@IBP, Tower A
Gates Rubber Company (S) Pte Limited	100%	Singapore	Distribution center	3A International Business Park #10-01/05 ICON@IBP, Tower A
Gates Unitta Asia Trading Company Pte Ltd	51%	Singapore	Marketing and sales support for other Gates entities	3A International Business Park #10-01/05 ICON@IBP, Tower A
Gates PT Spain SA	100%	Spain	Manufacture of Power Transmission products	Avenida de la Riera, 3-5 Balsareny Barcelona
Gates (Thailand) Co., Ltd.	100%	Thailand	Corporate functions	64/86 Moo 4 Eastern Seaboard Industrial Estate (Rayong), Pluakdaeng, Rayong, 21140
Gates Unitta (Thailand) Co., Ltd	51%	Thailand	Manufacture of industrial and automotive Power Transmission belts	64/86 Moo 4 Eastern Seaboard Industrial Estate (Rayong), Pluakdaeng, Rayong, 21140
Gates Güç Aktarim Sistemleri Dagitim Sanayi Ve Ticaret Limited Şirketi	100%	Turkey	Sales office and technical center	Fatih Mahallesi Yakacik Cad. No. 38 Sancaktepe Istanbul
Gates Endüstriyel Metal Kauçuk Sanayi ve Ticaret Anonim Şirketi	100%	Turkey	Manufacture of tensioners and other Power Transmission products	Ege Serbest Bölgesi Zafer SB Mah. Yalçın Yolu No:21 35410 Gaziemir-İZMİR TURKEY
Gates Hortum Sanayi ve Ticaret Limited Şirketi	100%	Turkey	Manufacture of Fluid Power products	Adiye Koyu Bilecik Yolu Uzeri Nul Koy Sokagi No: 51 Arfiye Sakarya

Name	Ownership Interest	Jurisdiction of Organization or Incorporation	Nature of Business	Registered Address
Rapro Kauçuk ve Plastik Ürünleri İthalat Ihracat Mümessillik Pazarlama Ticaret Limited Şirketi	100%	Turkey	Sales of molded and branched hoses and other Fluid Power products	Ankara Asfalti 26. Km Kuyucak Yolu Kumeevler No. 226 Kemalpasa O.S.B. Kemalpasa, Izmir
Rapro Kimya Turizm Bilişim Sanayi ve Ticaret Anonim Şirketi	100%	Turkey	Manufacture and sales of molded and branched hoses and other Fluid Power products	Kemalpaþa OSB Mahallesi Kuyucak Yolu, Dýþ Kapý No:226 Kemalpaþa,Izmir, Izmir, Turkey
Gates Engineering & Services Hamriyah FZE	100%	UAE	Manufacture and assembly of industrial belts and hoses	Warehouse and Plot No. 1J-11/2, 2M-10 Hamriyah Free Zone Sharjah, UAE
Gates Engineering & Services Co. LLC (Sharjah)	49% *	UAE	Selling filters, cartridges and pumps, renting and service of hydraulic pumps and machines	P.O. Box 21327 Port Khalid Sharjah, UAE
Gates E&S Industries LLC	49% *	UAE	Assembly of pipes and hoses	Dubai Real Estate, Al Quoz Industrial No. 4, Bur Dubai, PO Box 12973, Dubai, United Arab Emirates, United Arab Emirates
Gates Engineering & Services FZCO	100%	UAE	Manufacture and support for oil & gas field equipment, and hose assembly	Plot No. S20110 P.O. Box 61046 Jebel Ali, Dubai
Gates E&S Trading LLC (UAE)	49% *	UAE	Sale of heavy equipment and machinery, and spare parts	Dubai Real Estate, Al Quoz Industrial No. 4, Bur Dubai PO Box 12973, Dubai, United Arab Emirates, United Arab Emirates
Gates Fleximak Oilfield Services Est.	0% *	UAE	Oil & gas field services, and sale of hoses and related accessories	P.O. Box 8543 Mussafah, Abu Dhabi
Finco Omaha Limited	100%	UK	Treasury company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Acquisitions Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Auto Parts Holdings China Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates (U.K.) Limited	100%	UK	Research, development, manufacture and sales of synchronous timing belts and assembly of hydraulic hose fitments.	Tinwald Downs Road Heathhall Dumfries DG1 1TS Scotland
Gates Engineering & Services Global Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Engineering & Services UK Holdings Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Engineering & Services UK Limited	100%	UK	Design, manufacture and assembly of rubber hose products for use in the oil & gas industry	c/o Interturst UK 35 Great St Helen's, London, EC3A 6AP
Gates European Holdings Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom

Name	Ownership Interest	Jurisdiction of Organization or Incorporation	Nature of Business	Registered Address
Gates Finance Limited	100%	UK	Treasury company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Fluid Power Technologies Investments Ltd	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Holdings Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Industrial Holdco Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Treasury (Canadian Dollar) Company	100%	UK	Treasury company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Treasury (Dollar) Company	100%	UK	Treasury company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Treasury (Euro) Company	100%	UK	Treasury company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates UK Pension Trustees Limited ‡	100%	UK	Pension company	c/o Interturst UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Worldwide Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Tomkins BP UK Holdings Limited ‡	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Tomkins Engineering Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Tomkins Investments China Limited †	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Tomkins Investments Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates Treasury (Brazilian Real) Limited	100%	UK	Treasury company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Tomkins Overseas Investments Limited	100%	UK	Holding company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Tomkins Pension Trustees Limited ‡	100%	UK	Pension company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom

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Trico Products (Dunstable) Pension Trustees Limited ‡	100%	UK	Pension company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Gates UK Finance Limited	100%	UK	Structure company	c/o Intertrust UK 35 Great St Helen's, London, EC3A 6AP United Kingdom
Atlas Hydraulics, Inc.	100%	South Dakota, U.S.	Design, manufacture and supply of hydraulic tube and hose assemblies	C T Corporation System 319 South Coteau Street Pierre, South Dakota 57501
Broadway Mississippi Development, LLC	100%	Colorado, U.S.	Corporate functions	7700 East Arapahoe Rd Suite 220 Centennial, CO 80112
Gates Development Corporation	100%	Colorado, U.S.	Holding company	7700 East Arapahoe Rd Suite 220 Centennial, CO 80112
Gates Nitta Belt Company, LLC	51%	Colorado, U.S.	Holding company	7700 East Arapahoe Rd Suite 220 Centennial, CO 80112
Gates Administration Corp.	100%	Delaware, U.S.	Corporate functions	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates Corporation	100%	Delaware, U.S.	Corporate offices, and research, development, manufacture, distribution and sale of Power Transmission and Fluid Power products	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates E&S North America, Inc.	100%	Delaware, U.S.	Sale of Fluid Power products	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates Global Co.	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates Global LLC	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates Holdings 1 LLC	100%	Delaware, U.S.	Structure company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates International Holdings LLC	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates Investments, LLC	100%	Delaware, U.S.	Structure company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates TPU, Inc.	100%	Delaware, U.S.	Manufacture and sale of thermoplastic polyurethane belt products	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Gates Winhere LLC	60%	Delaware, U.S.	Manufacture and sale of water pumps	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Omaha Acquisition Inc.	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Omaha Holdings LLC	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Philips Holding Corporation	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801

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Tomkins BP US Holding Corporation	100%	Delaware, U.S.	Holding company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Colinx LLC **	20%	Delaware, U.S.	Provider of e-commerce and logistics services	1209 Orange Street Corporation Trust Center Wilmington, DE 19801
Du-Tex Properties, LLC	100%	Texas, U.S.	Real estate company	1209 Orange Street Corporation Trust Center Wilmington, DE 19801

* These entities are subsidiary undertakings and are consolidated by the Company on the basis that it has the right to exercise a dominant influence over the undertaking by virtue of a control contract whereby it has exercises control over it

** Associate

† No financial statements are required to be prepared for these U.K. companies

‡ These are dormant U.K. companies whose financial statements are not required to be audited