

BORGWARNER LIMITED

Report and Financial Statements

31 December 2005

**Deloitte & Touche LLP
Leeds**



BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

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BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M D Fischer
J M McNamara

SECRETARY

M R Taylor

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

BANKERS

Barclays Bank Plc
10 Market Street
Bradford
BD1 1NR

SOLICITORS

Pinsent Masons
1 Park Row
Leeds
LS1 5AB

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

BORGWARNER LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

ACTIVITIES

The principal activity of the company is the manufacture and sale of turbochargers and transfer cases and components.

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £2,209,000 (2004: £2,490,000 [restated]). No dividend is proposed (2004: £nil), leaving a profit of £2,209,000 to be transferred to reserves (2004: profit of £2,490,000 [restated] transferred to reserves).

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider the performance of the company to be satisfactory and are optimistic about its prospects.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

M D Fischer	(appointed 25th July 2005)
J M McNamara	(appointed 25th July 2005)
R J Tenda	(resigned 29th July 2005)
G F Carter	(resigned 1 st March 2005)
C P Morgan	(resigned 29th July 2005)

None of the directors have any interests in the shares of the company.

CHARITABLE DONATIONS

The company made £15,081 (2004: £42,596) of donations to charity in 2005.

EMPLOYEE CONSULTATION

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through circulation of information to employees via notice boards, production of a quarterly newsletter and monthly staff committee meetings.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should as far as possible, be identical to that of other employees.

SUPPLIER PAYMENT POLICY

Where appropriate to the circumstances prevailing, it is the policy of the company to place orders with suppliers in documented form and process such orders for payment in accordance with terms and conditions set out therein.

The trade creditors at 31 December 2005 represent 52 creditor days (2004: 64 days) based on the total amounts invoiced by suppliers during the year.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors, and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



M D Fischer

26 October 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 proper accounting records which 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

We have audited the financial statements of BorgWarner Limited for the year ended 31 December 2005 which comprise the profit and loss account, the notes of historical cost profits and losses, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards of Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the company as at 31 December 2005 and its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
Leeds

31 October 2006

BORGWARNER LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2005

	Note	2005 £'000	As Restated 2004 £'000
TURNOVER			
Continuing operations		104,521	106,019
Discontinued operations		-	6,914
		<hr/>	<hr/>
	2	104,521	112,933
Cost of sales	3	(96,139)	(101,281)
		<hr/>	<hr/>
Gross profit		8,382	11,652
Other operating expenses, net (including amortisation of negative goodwill of £824,000 (2004: £824,000))	3	(4,484)	(6,232)
		<hr/>	<hr/>
OPERATING PROFIT			
Continuing operations		3,898	5,002
Discontinued operations		-	418
		<hr/>	<hr/>
	4	3,898	5,420
Costs of a fundamental restructuring of discontinued operations	5	-	(651)
Interest payable and similar charges	6	(907)	(1,051)
Other finance income/(charges)	20	70	(120)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,061	3,598
Tax on profit on ordinary activities	8	(852)	(1,108)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	18	2,209	2,490
		<hr/>	<hr/>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 31 December 2005

	2005 £'000	As Restated 2004 £'000
Profit on ordinary activities before taxation	3,061	3,598
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	460	588
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	3,521	4,186
	<hr/>	<hr/>
Historical cost profit for the year after taxation	2,669	3,078
	<hr/>	<hr/>

BORGWARNER LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES **Year ended 31 December 2005**

	2005 £'000	As Restated 2004 £'000
Retained profit on ordinary activities after tax	2,209	2,490
Gain on pension scheme assets	7,360	860
Expense gain on pension scheme liabilities	6,840	1,660
Loss on change of assumptions in relation to pension scheme liabilities	(19,440)	(3,440)
Deferred tax on pension scheme liabilities	1,572	276
Prior period adjustment on adoption of FRS 17	(14,308)	-
	<u>(15,767)</u>	<u>1,846</u>

BORGWARNER LIMITED

BALANCE SHEET

31 December 2005

	Note	2005 £'000	As Restated 2004 £'000
FIXED ASSETS			
Intangible assets – negative goodwill	9	(1,444)	(2,268)
Tangible assets	10	25,337	20,587
Investments	11	2,833	2,833
		<u>26,726</u>	<u>21,152</u>
CURRENT ASSETS			
Stocks	12	10,500	10,899
Debtors : amounts falling due within one year	13	23,774	24,372
Cash at bank and in hand		10	8
		<u>34,284</u>	<u>35,279</u>
CREDITORS: amounts falling due within one year	14	<u>(32,313)</u>	<u>(32,739)</u>
NET CURRENT ASSETS		<u>1,971</u>	<u>2,540</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>28,697</u>	<u>23,692</u>
CREDITORS: amounts falling due after more than one year	15	(9,670)	(5,403)
PROVISIONS FOR LIABILITIES	16	<u>(3,272)</u>	<u>(3,399)</u>
NET ASSETS BEFORE PENSION LIABILITY		<u>15,755</u>	<u>14,890</u>
Pension Liability	20	<u>(15,295)</u>	<u>(12,971)</u>
NET ASSETS AFTER PENSION LIABILITY		<u>460</u>	<u>1,919</u>
CAPITAL AND RESERVES			
Called up share capital	17	10,190	10,190
Revaluation reserve	18	1,899	2,359
Profit and loss account	18	<u>(11,629)</u>	<u>(10,630)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>460</u>	<u>1,919</u>

These financial statements were approved by the Board of Directors on 26 October 2006.

Signed on behalf of the Board of Directors



M D Fischer

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below, which with the exception of pension accounting, have been applied consistently throughout the year and preceding year.

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Cash flow statement

A cash flow statement has not been prepared as the company is a wholly owned subsidiary undertaking of BorgWarner Holdings Limited, a company registered in England and Wales. This company's ultimate parent, BorgWarner Inc., published consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group. The accounts of BorgWarner Inc. are available from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

Changes in accounting policies

The accounting policy for pension costs has been changed during the year as the Company has adopted FRS 17 "Retirement benefits". This has had the impact of decreasing the opening reserves for the year ended 31 December 2004 by £14,308,000 and has reduced profit after tax by £120,000 for the year ended 31 December 2004. The impact on 2005 has been to reduce net assets by £15,295,000 and increase profit after tax by £70,000 for the year ended 31 December 2005.

Group accounts

The directors have not presented consolidated accounts because the company is a wholly owned subsidiary undertaking of BorgWarner Holdings Limited, a company registered in England and Wales, which prepares consolidated accounts. Further information relating to the company's subsidiary undertakings is given in note 11 to the financial statements. These financial statements therefore present information about the company and not its group.

Acquisitions

On the acquisition of a business, fair values are attributed to the separable net assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the balance sheet in the year of acquisition.

The results relating to a business are included in the profit and loss account from the date of acquisition or up to the date of disposal.

Goodwill and intangible fixed assets

For acquisitions of a business purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful economic life up to a maximum of 20 years with a full year's charge for amortisation in the year of acquisition. The directors regard 20 years as a reasonable maximum for the estimated useful economic life of goodwill since it is difficult to make projections exceeding this period.

Negative goodwill in excess of the fair values of the assets acquired is credited to the profit and loss account over the period expected to benefit therefrom. The directors consider that 8 years is a reasonable period over which to amortise goodwill.

Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods despatched in the normal course of business.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Research and development

Research and development costs are written off in the year of expenditure.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES (CONTINUED)

Fixed asset investments

Fixed asset investments are stated at cost less provision for permanent impairment in value.

Tangible fixed assets

Tangible fixed assets are stated at cost or revalued amount less accumulated depreciation.

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

There is no depreciation on freehold land

Freehold buildings 25 years

Plant and machinery 3 to 10 years

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost represents expenses incurred in bringing each product to its present location and condition and includes materials, direct labour and a share of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Pension costs

The cost of providing pensions under the defined benefit schemes is determined using actuarial valuations carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the profit and loss account and presented in the statement of total recognised gains and losses.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The pension liability recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and the pension asset represents the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Taxation

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

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

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

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

2. SEGMENTAL INFORMATION

Turnover, which relates entirely to the supply of components to the automotive industry, comprised:

	2005 £'000	2004 £'000
Sales to third parties	95,148	101,407
Sales to fellow group undertakings	9,373	11,526
	<u>104,521</u>	<u>112,933</u>

Contributions to turnover by geographical area were as follows:

	2005 £'000	2004 £'000
United Kingdom	4,601	9,092
Rest of Europe	62,232	51,067
Rest of the World	37,688	52,774
	<u>104,521</u>	<u>112,933</u>

All of the company's turnover originated in the United Kingdom.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

3. ANALYSIS OF PROFIT AND LOSS ACCOUNT

	Total 2005 £'000	Continuing operations 2004 £'000	Discontinued operations 2004 £'000	Restated Total 2004 £'000
Cost of sales	<u>96,139</u>	<u>95,168</u>	<u>6,113</u>	<u>101,281</u>
Operating expenses, net				
Selling and marketing costs	<u>884</u>	<u>830</u>	<u>121</u>	<u>951</u>
Administrative expenses:				
General	3,913	5,096	72	5,168
Research and development costs	511	747	190	937
Amortisation of negative goodwill	<u>(824)</u>	<u>(824)</u>	<u>-</u>	<u>(824)</u>
Total administrative expenses	<u>3,600</u>	<u>5,019</u>	<u>262</u>	<u>5,281</u>
	<u>4,484</u>	<u>5,849</u>	<u>383</u>	<u>6,232</u>

The research and development costs all relate to current year expenditure.

4. OPERATING PROFIT

	2005 £'000	2004 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned assets	4,101	3,687
Operating lease rentals		
- plant and machinery	129	327
- other	222	254
Auditors' remuneration		
- audit	69	58
- other	29	134
Loss on disposal of fixed assets	54	40
Redundancy payments	25	134
Amortisation of negative goodwill	<u>(824)</u>	<u>(824)</u>

5. EXCEPTIONAL ITEMS REPORTED AFTER OPERATING PROFIT

In the prior year the costs of a fundamental restructuring of discontinued operations arose in respect of the disposal of the Cooling fans division, which has had a material effect on the nature and focus of the company's operations.

The effects of the exceptional items reported after operating profit on the amount charged to the profit and loss account for taxation was:

	Tax on profit on ordinary activities	
	2005 £'000	2004 £'000
Cost of a fundamental restructuring of discontinued operations	<u>-</u>	<u>195</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £'000	2004 £'000
On bank loans and overdrafts	336	5
On intercompany loans	571	1,046
	<u>907</u>	<u>1,051</u>

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2005 £'000	As Restated 2004 £'000
Employee costs during the period amounted to:		
Wages and salaries	16,729	16,719
Social security costs	1,345	1,375
Other pension costs	3,420	3,100
	<u>21,494</u>	<u>21,194</u>

The average monthly number of persons employed by the company (including executive directors) during the year was as follows:

	2005 No.	2004 No.
Production and engineering	576	644
Sales	13	10
Administration	118	103
	<u>707</u>	<u>757</u>

Directors' remuneration

	2005 £'000	2004 £'000
Emoluments	<u>51</u>	<u>83</u>

The number of directors who were members of the company's defined benefit schemes was as follows:

	2005 No	2004 No
Defined benefit scheme	<u>1</u>	<u>1</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005	As Restated 2004
	£'000	£'000
The tax charge is based on the profit for the year and comprises:		
United Kingdom Corporation tax at 30% (2004: 30%)	(253)	730
Adjustments in respect of prior years corporation tax	393	(7)
Total current taxation	140	723
Deferred taxation:-		
Origination and reversal of timing differences	1,105	375
Adjustment in respect of prior years	(393)	10
	852	1,108

The tax assessed for the period is lower (2004: lower) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	2005	2004
	£'000	£'000
Profit on ordinary activities before tax	3,061	3,598
Tax at 30% thereon	918	1,079
Effects of:		
Expenses not deductible for tax purposes	182	273
Capital allowances in excess of depreciation	(341)	16
Movement in short term timing differences	(765)	(391)
Non taxable amortisation of negative goodwill	(247)	(247)
Prior year adjustments	393	(7)
Current tax charge for the year	140	723

9. INTANGIBLE FIXED ASSETS

	Negative Goodwill £'000
Cost	
At 1 January 2005 and 31 December 2005	7,203
Accumulated amortisation	
At 31 December 2004	4,935
Credit for the year	824
At 31 December 2005	5,759
Net book value	
At 31 December 2005	1,444
At 31 December 2004	2,268

Negative goodwill of £7,203,000 was brought into the balance sheet in the year ended 31 December 1999 to reflect the purchase of the Margam division. The negative goodwill is being amortised over an 8 year period.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

10. TANGIBLE FIXED ASSETS

Cost or valuation	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
At 31 December 2004	4,342	35,825	40,167
Additions	458	8,902	9,360
Disposals	-	(1,961)	(1,961)
At 31 December 2005	4,800	42,766	47,566
Accumulated depreciation			
At 31 December 2004	1,190	18,390	19,580
Charge for the year	303	3,798	4,101
Disposals	-	(1,452)	(1,452)
At 31 December 2005	1,493	20,736	22,229
Net book value			
At 31 December 2005	3,307	22,030	25,337
At 31 December 2004	3,152	17,435	20,587

Freehold land amounting to £207,547 (2004: £207,547) has not been depreciated. Plant and machinery includes fixed assets held under finance leases with a net book value of £ nil (2004: £nil).

The transitional arrangements of FRS 15 'Tangible Fixed Assets' have been adopted in the case of freehold land and buildings and plant and machinery where the valuations of £1,522,000 and £9,847,000 respectively have not been updated since the September 1999 review. The company is not continuing the valuation policy relating to these classes of asset and the assets have been frozen at modified historic cost.

At 31 December 2005, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £2,842,000 and £20,596,000 respectively.

11. FIXED ASSET INVESTMENTS

Subsidiary undertakings	£'000
Cost	
At 1 January 2005 31 December 2005	3,327
Provision for impairment	
At 1 January 2005 and 31 December 2005	494
Net book value	
At 31 December 2005 and 31 December 2004	2,833

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

11. FIXED ASSET INVESTMENTS (continued)

The company holds an investment in the equity (but no other share capital or capital loan) of the following subsidiary undertakings:

	Country of Incorporation /registration	Principal activity	Description of shares held	Proportion of shares held
Kysor (Europe) Limited	England and Wales	Dormant	£1 ordinary shares	100%
Kysor BV	Belgium	Dormant	£1 ordinary shares	100%

The provision for impairment relates to the investment in Kysor BV, which has been impaired to nil value upon that company's liquidation in 2004.

12. STOCKS

	2005 £'000	2004 £'000
Raw materials and consumables	7,243	6,912
Work-in-progress	1,555	2,079
Finished goods and goods for resale	1,702	1,908
	<u>10,500</u>	<u>10,899</u>

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.

13. DEBTORS

	2005 £'000	As Restated 2004 £'000
Amounts falling due within one year		
Trade debtors	14,699	15,639
Amounts owed by group undertakings	7,103	5,211
VAT	942	1,137
Prepayments and accrued income	1,030	2,385
	<u>23,774</u>	<u>24,372</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	As Restated 2004 £'000
Overdraft	6,820	2,525
Trade creditors	7,885	10,489
Amounts owed to other group companies	14,640	16,056
Other creditors:		
UK corporation tax payable	413	1,077
Social security and PAYE	433	518
Accruals and deferred income	2,122	2,074
	<u>32,313</u>	<u>32,739</u>

Amounts owed to other group companies include an £11.9 million loan with BorgWarner Holdings Limited, which accrues interest at a rate of 4% per annum.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £'000	2004 £'000
Owed to group companies	9,670	5,403

Creditors falling due after more than one year are all repayable within 2-5 years and are interest free.

16. PROVISIONS FOR LIABILITIES

Provisions for liabilities and charges comprise:	Deferred Taxation	Product Warranties £'000	Restructuring Provision £'000	Total £'000
At 1 January 2005 [Restated]	1,883	1,351	165	3,399
Charged to profit and loss account	137	908	-	1,045
Utilised in year	-	(1,007)	(165)	(1,172)
At 31 December 2005	2,020	1,252	-	3,272

The amounts of deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided 2005 £'000	Not provided 2005 £'000	Restated Provided 2004 £'000	Restated Not provided 2004 £'000
Capital allowances in advance of depreciation	2,351	-	2,024	-
Short term timing differences	(331)	-	(141)	-
	2,020	-	1,883	-

Deferred taxation has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further rollover relief is not available. The estimated amount of tax that would be payable in these circumstances is £162,400.

17. CALLED UP SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised		
20,000,000 ordinary shares of £1 each	20,000	20,000
Called up, allotted and fully paid		
10,190,002 ordinary shares of £1 each	10,190	10,190

BORGWARNER LIMITED

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Year ended 31 December 2005

18. RESERVES

	Revaluation reserve £'000	Restated Profit and loss account £'000
At 1 January 2005	2,359	3,678
Prior year adjustment on adoption of FRS17	-	(14,308)
At 1 January 2005 restated	2,359	(10,630)
Actuarial losses for current year under FRS17	-	(5,240)
Deferred tax asset under FRS17	-	1,572
Retained profit for the year	-	2,209
Transfer of amount equivalent to additional depreciation on revalued assets	(460)	460
At 31 December 2005	1,899	(11,629)

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

	2005 £'000	2004 £'000
(a) Capital commitments at the end of the year were:		
Contracted for but not provided for	3,306	3,845

(b) Contingent liabilities:

The company has unsecured guarantees to third parties outstanding amounting to £ nil (2004: £nil).

(c) Lease commitments:

The group leases certain assets under operating leases. The lease agreements provide that the company will pay all insurance, maintenance and repairs. The lease of land and buildings are subject to rent reviews at specified periods.

	2005		2004	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Operating leases which expire:				
Within one year	132	12	-	11
Within 2-5 years	-	68	254	90
After 5 years	90	-	-	-
	222	80	254	101

20. PENSION SCHEME

The company participates in an approved pension plan (the "Plan"). The Plan consists of two defined benefit sections, referred to as the Bradford and Margam sections, and a defined contribution section that was introduced with effect from October 2003. The funds of the plan are administrated by trustees and are separate from the company. The pension liability is all held within its subsidiary (BorgWarner Ltd) and is not a closed scheme. The liability is accounted for in BorgWarner Limited accounts and then consolidated into BorgWarner Holdings Limited accounts.

The most recent actuarial valuation of the Plan was carried out as at 31 March 2005. The market value of the Plan's assets was £66.46million, which represented 85 per cent of the value of accrued benefits after allowing for expected increases in future earnings.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

20. PENSION SCHEME (continued)

The contribution rates for the year ended 31 December 2005 were 13.5% and 17.5% of pensionable earnings for the Bradford and Margam components respectively. The long-term contribution rates for the Bradford and Margam components are 12.9% and 19.5% respectively and these will be paid from January 2006.

Financial Reporting Standard 17 ("Retirement Benefits")

In November 2000 the Accounting Standards Board issued Financial Reporting Standard No. 17 'Retirement Benefits' replacing SSAP 24 'Accounting for Pension Costs'. In previous years the Company had not adopted the full requirements of FRS17, instead continuing to report under the now superseded UK standard SSAP24. For accounting years beginning on or after 1 January 2005, the current UK standard SSAP24 has ceased to apply and has been replaced by FRS17. The Company's 2004 accounts have been prepared on the basis of SSAP24 being the relevant accounting standard governing pension cost reporting. FRS17 requires a very different approach to SSAP24. FRS17 has been fully adopted by BorgWarner Limited for 31 December 2005 accounts. The 2004 comparatives have been restated to comply with FRS17.

The actuarial valuation of the defined benefit plan was updated to 31 December 2005. The principal actuarial assumptions used at 31 December are shown below:

	At 31 December 2005	At 31 December 2004	At 31 December 2003
Rate of increase in salaries	3.25% p.a.	4.00% p.a.	4.00% p.a.
Rate of increase of pensions in payment and deferment	2.75% p.a.	2.75% p.a.	2.50% p.a.
Discount Rate	4.75% p.a.	5.40% p.a.	5.50% p.a.
Inflation assumption	2.75% p.a.	2.75% p.a.	2.50% p.a.

The assets and liabilities of the Plan at 31 December, along with the expected rates of return on scheme assets are shown below:

	Expected rate of return year commencing 31 December 2005	Value at 31 December 2005 £'000	Expected rate of return year commencing 31 December 2004	Value at 31 December 2004 £'000	Expected rate of return year commencing 31 December 2003	Value at 31 December 2003 £'000
Equities	8.9%	50,360	8.0%	40,920	8.1%	37,450
Bonds	4.1%	26,940	4.4%	21,620	4.35%	18,220
Other assets	4.5%	70	4.5%	350	3.8%	240
Total market value of assets		77,370		62,890		55,910
Actuarial value of liabilities		(99,220)		(81,420)		(75,260)
Deficit in the scheme		(21,850)		(18,530)		(19,350)
Related deferred tax asset		6,555		5,559		5,805
Net pension liability		(15,295)		(12,971)		(13,545)

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

20. PENSION SCHEME (continued)

Analysis of amount chargeable to operating profit:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Current service cost	3,420	3,100

Analysis of the amount to be (debited)/credited to other finance (charges)/income:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Expected return on pension scheme assets	4,380	3,950
Interest on pension scheme liabilities	(4,310)	(4,070)
Net charge	70	(120)

Movement in deficit during the year:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Deficit in scheme at the beginning of the year	(18,530)	(19,350)
Current service cost	(3,420)	(3,100)
Contributions	5,270	4,960
Other finance (charges)/income	70	(120)
Actuarial loss	(5,240)	(920)
Deficit in scheme at the end of the year	(21,850)	(18,530)

BORGWARNER LIMITED

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Year ended 31 December 2005

20. PENSION SCHEME (continued)

History of experience gains and losses:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
<i>Difference between expected and actual return on scheme assets:</i>				
Amount	7,360	860	3,820	(10,590)
Percentage of scheme assets	9.51%	1.37%	6.83%	(21.88%)
<i>Experience gains and (losses) on scheme liabilities:</i>				
Amount	6,840	1,660	(2,220)	170
Percentage of scheme liabilities	6.9%	2.04%	(2.95%)	0.26%
<i>Changes in assumptions underlying present value of scheme liabilities</i>				
Amount	(19,440)	(3,440)	(3,440)	5,030
Percentage of scheme assets	(25.14%)	(5.47%)	(6.15%)	10.39%
<i>Total amount recognised in statement of total recognised gains and losses</i>				
Amount	(5,240)	(920)	(1,840)	(5,390)
Percentage of present value of scheme liabilities	(5.28%)	(1.13%)	(2.44%)	(23.61%)

21. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of BorgWarner Holdings Limited (formerly BWA Turbo Systems Holdings Limited), which heads the smallest group into which the company is consolidated.

At 31 December 2005 the ultimate parent undertaking and largest group for which consolidated accounts are prepared was Borg-Warner Inc. which is incorporated in the State of Delaware, USA. Copies of its financial statements can be obtained from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

The company has taken advantage of the exemption contained in Financial Reporting Standard No 8, "Related Party Disclosures" not to disclose related party transactions with other group companies as it is a wholly owned subsidiary.