

BORGWARNER LIMITED

Report and Financial Statements

31 December 2006



Deloitte & Touche LLP
Leeds

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	6
Note of historical cost profits and losses	6
Statement of recognised gains and losses	7
Balance sheet	8
Notes to the financial statements	9

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR

M D Fischer

SECRETARY

P B Berry

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 director presents her annual report and the audited financial statements for the year ended 31 December 2006

ACTIVITIES

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

RESULTS AND DIVIDENDS

The loss after taxation for the financial year is £1,156,000 (2005 profit £2,209,000) No dividend is proposed (2005 £nil), leaving a loss of £1,156,000 to be transferred from reserves (2005 profit of £2,209,000 transferred to reserves)

Business Review and Principal Activities

The Company's principal activities are the manufacture and sales of turbochargers and driveline components to the automotive industry worldwide There have not been any significant changes in the company's principal activities in the year under review

The driveline business invests in R&D services for transmission products, supporting future business opportunities of the business

As indicated in the profit and loss account, the Company's sales have increased by 9.8% over the prior year, although the profit after tax has declined from a profit of £2.2m to a loss of £1.2m The 2007 after tax loss included restructuring, the impact of which was £2.2m

The balance sheet shows that the Company's financial position at the year end is, in both net assets and cash terms consistent with the prior year Details of the amount owed to the parent company have been disclosed in note 14 and 15 of the accounts

BorgWarner Limited manages its operations on a divisional basis For this reason the directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business The performance of the turbocharger and driveline divisions is discussed in the group annual accounts of BorgWarner Inc

Principal Risks and Uncertainties

Competitive world pressures in the driveline business is a continuing risk, which the company manages by providing a high quality cost competitive product while maintaining strong relationships with its customers' technical functions

The driveline business underwent a significant restructuring during the fourth quarter of 2006, the action being taken in order to retain competitiveness in the global driveline component market

The UK businesses are exposed to metal commodity price risks, which are managed through a progressive cost reduction strategy and contractual arrangements with the customer base The Company's European sales are made in Euros and there are therefore risks associated with the Euro to Pound exchange rates The treasury function actively manages these risks through forward exchange contracts and other mechanisms

The Company is financed by a fixed rate loan from its parent and UK bank overdraft facilities Interest rate exposure is a relevant factor to the business

Environment

BorgWarner recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Company's activities

The turbocharger division has been the recipient of business awards in respect of energy reduction and environmental system management

Employees

Details of the number of employees can be found in note 7 of the financial statements

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

BORGWARNER LIMITED

DIRECTORS' REPORT

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 with that of other employees.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below

M D Fischer

J M McNamara (resigned 31st March 2007)

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

CHARITABLE DONATIONS

The company made £10,381 (2005 £15,081) of donations to charity in 2006

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 2006 represent 48 creditor days (2005 52 days) based on the total amounts invoiced by suppliers during the year.

DISCLOSURE OF RELEVANT INFORMATION TO AUDITORS

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

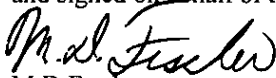
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that she ought to have taken as a director to make herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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
19 June 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to

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

The director is responsible for keeping proper accounting records that 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 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 2006 which comprise the profit and loss account, the notes of historical cost profit 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on 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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Directors' Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte + Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Leeds

27 June 2007

BORGWARNER LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Turnover	2	114,804	104,521
Cost of sales	3	(107,934)	(96,139)
Gross profit		6,870	8,382
Other operating expenses, net (including amortisation of negative goodwill of £824,000 (2005 £824,000))	3	(5,587)	(4,484)
OPERATING PROFIT		1,283	3,898
Costs of a fundamental restructuring	5	(3,135)	-
Interest payable and similar charges	6	(981)	(907)
Other finance income	20	1,190	70
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,643)	3,061
Tax on (loss) / profit on ordinary activities	8	487	(852)
(LOSS) / PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	18	(1,156)	2,209

NOTE OF HISTORICAL COST PROFITS AND LOSSES Year ended 31 December 2006

	2006 £'000	2005 £'000
(Loss) / profit on ordinary activities before taxation	(1,643)	3,061
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	460	460
Historical cost (loss) / profit on ordinary activities before taxation	(1,183)	3,521
Historical cost (loss) / profit for the year after taxation	(696)	2,669

BORGWARNER LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES **Year ended 31 December 2006**

	2006 £'000	2005 £'000
Retained (loss) / profit on ordinary activities after tax	(1,156)	2,209
(Loss) / gain on pension scheme assets	(120)	7,360
Expense gain on pension scheme liabilities	3,110	6,840
Gain / (loss) on change of assumptions in relation to pension scheme liabilities	2,070	(19,440)
Deferred tax on pension scheme liabilities	(1,518)	1,572
Prior adjustment on adoption of FRS 17	-	(14,308)
	<u>2,386</u>	<u>(15,767)</u>

BORGWARNER LIMITED

BALANCE SHEET 31 December 2006

	Note	2006 £'000	2005 £'000
FIXED ASSETS			
Intangible assets – negative goodwill	9	(620)	(1,444)
Tangible assets	10	24,772	25,337
Investments	11	2,833	2,833
		<u>26,985</u>	<u>26,726</u>
CURRENT ASSETS			
Stocks	12	11,093	10,500
Debtors amounts falling due within one year	13	17,854	23,774
Cash at bank and in hand		-	10
		<u>28,947</u>	<u>34,284</u>
CREDITORS: amounts falling due within one year	14	<u>(32,492)</u>	<u>(32,313)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(3,545)</u>	<u>1,971</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		23,440	28,697
CREDITORS: amounts falling due after more than one year	15	(6,743)	(9,670)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(4,952)</u>	<u>(3,272)</u>
NET ASSETS BEFORE PENSION LIABILITY		11,745	15,755
Pension Liability	20	<u>(8,899)</u>	<u>(15,295)</u>
NET ASSETS AFTER PENSION LIABILITY		<u>2,846</u>	<u>460</u>
CAPITAL AND RESERVES			
Called up share capital	17	10,190	10,190
Revaluation reserve	18	1,439	1,899
Profit and loss account	18	<u>(8,783)</u>	<u>(11,629)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>2,846</u>	<u>460</u>

These financial statements were approved by the Board of Directors on 19 June 2007

Signed on behalf of the Board of Directors



M D Fischer

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

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.

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

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. Negative goodwill is transferred to the profit and loss account to the extent that it is represented by monetary assets, in the period expected to benefit. To the extent negative goodwill is represented by non-monetary assets it is transferred to the profit and loss account as and when they are recovered through depreciation or sale.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

1. ACCOUNTING POLICIES (continued)

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.

Research and development

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

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

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.

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.

Leases

Payments in respect of operating leases are charged to the profit and loss account over the term of the lease.

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.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

2. SEGMENTAL INFORMATION

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

	2006	2005
	£'000	£'000
Sales to third parties	108,933	95,148
Sales to fellow group undertakings	5,871	9,373
	<u>114,804</u>	<u>104,521</u>

Contributions to turnover by geographical area were as follows

	2006	2005
	£'000	£'000
United Kingdom	3,556	4,601
Rest of Europe	77,092	62,232
Rest of the World	34,156	37,688
	<u>114,804</u>	<u>104,521</u>

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

3. ANALYSIS OF PROFIT AND LOSS ACCOUNT

	Total	Total
	2006	2005
	£'000	£'000
Cost of sales	<u>107,934</u>	<u>96,139</u>
Operating expenses, net		
Selling and marketing costs	<u>1,620</u>	<u>884</u>
Administrative expenses		
General	4,791	3,913
Research and development costs	-	511
Amortisation of negative goodwill	(824)	(824)
Total administrative expenses	<u>3,967</u>	<u>3,600</u>
	<u>5,587</u>	<u>4,484</u>

The research and development costs all relate to the year of expenditure

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

4. OPERATING PROFIT

	2006 £'000	2005 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned assets	4,541	4,101
Operating lease rentals		
- plant and machinery	165	129
- other	253	222
Loss on disposal of fixed assets	27	54
Amortisation of negative goodwill	(824)	(824)
	<u>2006</u> <u>£'000</u>	<u>Restated</u> <u>2005</u> <u>£'000</u>
Fees payable to the company's auditors for the audit of the company's annual accounts	78	69
Total audit fees	<u>78</u>	<u>69</u>
- Tax services	29	40
- Other services - Sarbanes-Oxley	31	29
Total non-audit fees	<u>60</u>	<u>69</u>
Total fees	<u>138</u>	<u>138</u>

5. EXCEPTIONAL ITEMS REPORTED AFTER OPERATING PROFIT

The costs of a fundamental restructuring of continuing operations arose in respect to actions taken at the Margam Division in 2006. An agreement was made with the local work force to compensate current employees for changes in terms and conditions effective April 1, 2007. In addition, commitments were made for special incentive payments to be made during 2007 to specific employees retiring before age 65.

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	
	2006 £'000	2005 £'000
Cost of a fundamental restructuring of continuing operations	941	-

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £'000	2005 £'000
On bank loans and overdrafts	316	336
On intercompany loans	665	571
	<u>981</u>	<u>907</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2006 £'000	2005 £'000
Employee costs during the period amounted to		
Wages and salaries	16,374	16,729
Social security costs	1,340	1,345
Other pension costs	3,560	3,420
	<u>21,274</u>	<u>21,494</u>

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

	2006 No.	2005 No.
Production and engineering	500	576
Sales	13	13
Administration	139	118
	<u>652</u>	<u>707</u>

Directors' remuneration

	2006 £'000	2005 £'000
Emoluments	-	51

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

	2006 No	2005 No
Defined benefit scheme	-	1

8 TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
The tax charge is based on the (loss) / profit for the year and comprises		
United Kingdom Corporation tax at 30% (2005 30%)	-	(253)
Adjustments in respect of prior years corporation tax	288	393
Total current taxation	<u>288</u>	<u>140</u>
Deferred taxation -		
Origination and reversal of timing differences	(599)	1,105
Adjustment in respect of prior years	(176)	(393)
	<u>(487)</u>	<u>852</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

8. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessed for the period is lower (2005 lower) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	2006 £'000	2005 £'000
(Loss) / profit on ordinary activities before tax	(1,643)	3,061
Tax at 30% thereon	(493)	918
Effects of		
Expenses not deductible for tax purposes	142	182
Capital allowances in excess of depreciation	(478)	(341)
Movement in short term timing differences	1,076	(765)
Non taxable amortisation of negative goodwill	(247)	(247)
Prior year adjustments	288	393
	<hr/>	<hr/>
Current tax charge for the year	288	140
	<hr/>	<hr/>

9. INTANGIBLE FIXED ASSETS

	Negative Goodwill £'000
Cost	
At 31 December 2005 and 31 December 2006	7,203
	<hr/>
Accumulated amortisation	
At 1 January 2006	5,759
Credit for the year	824
	<hr/>
At 31 December 2006	6,583
	<hr/>
Net book value	
At 31 December 2006	620
	<hr/>
At 31 December 2005	1,444
	<hr/>

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 2006

10. TANGIBLE FIXED ASSETS

Cost or valuation	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
At 1 January 2006	4,800	42,766	47,566
Additions	297	4,056	4,353
Disposals	(14)	(2,887)	(2,901)
At 31 December 2006	5,083	43,935	49,018
Accumulated depreciation			
At 1 January 2006	1,493	20,736	22,229
Charge for the year	257	4,284	4,541
Fixed asset impairment	-	266	266
Disposals	(10)	(2,780)	(2,790)
At 31 December 2006	1,740	22,506	24,246
Net book value			
At 31 December 2006	3,343	21,429	24,772
At 31 December 2005	3,307	22,030	25,337

Freehold land amounting to £207,547 (2005 £207,547) has not been depreciated

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 2006, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £3,125,000 (2005 £2,842,000) and £21,765,000 (2005 £20,596,000) respectively.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

11. FIXED ASSET INVESTMENTS

Subsidiary undertakings	£'000
Cost	
At 31 January 2006 and 31 December 2006	3,327
Provision for impairment	
At 1 January 2006 and 31 December 2006	494
Net book value	
At 31 December 2006 and 31 December 2005	2,833

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

	2006 £'000	2005 £'000
Raw materials and consumables	7,347	7,243
Work-in-progress	2,655	1,555
Finished goods and goods for resale	1,091	1,702
	<u>11,093</u>	<u>10,500</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

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade debtors	14,433	14,699
Amounts owed by group undertakings	1,199	7,103
VAT	1,314	942
Prepayments and accrued income	908	1,030
	<u>17,854</u>	<u>23,774</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Overdraft	859	6,820
Trade creditors	11,296	7,885
Amounts owed to other group companies	14,771	14,640
Other creditors		
UK corporation tax payable	1,464	413
Social security and PAYE	467	433
Accruals and deferred income	3,635	2,122
	<u>32,492</u>	<u>32,313</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

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

	2006 £'000	2005 £'000
Owed to group companies	<u>6,743</u>	<u>9,670</u>

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

16. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities comprise	Deferred Taxation	Product Warranties £'000	Restructuring Provision £'000	Total £'000
At 1 January 2006	2,020	1,252	-	3,272
Charged to profit and loss account	(1,952)	1,146	3,135	2,329
Utilised in year	-	(649)	-	(649)
At 31 December 2006	<u>68</u>	<u>1,749</u>	<u>3,135</u>	<u>4,952</u>

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

	Provided 2006 £'000	Not provided 2006 £'000	Provided 2005 £'000	Not provided 2005 £'000
Capital allowances in advance of depreciation	2,697	-	2,351	-
Short term timing differences	(1,038)	-	(331)	-
Tax loss carry forward	(1,591)	-	-	-
	<u>68</u>	<u>-</u>	<u>2,020</u>	<u>-</u>

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.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

17. CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'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

18. RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2006	1,899	(11,629)
Actuarial gain for current year under FRS17	-	5,060
Deferred tax asset under FRS17	-	(1,518)
Retained loss for the year	-	(1,156)
Transfer of amount equivalent to additional depreciation on revalued assets	(460)	460
At 31 December 2006	1,439	(8,783)

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

	2006 £'000	2005 £'000
(a) Capital commitments at the end of the year were:		
Contracted for but not provided for	4,298	3,306

(b) Contingent liabilities:

The company has unsecured guarantees to third parties outstanding amounting to £ nil (2005 £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.

	2006		2005	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Operating leases which expire				
Within one year	-	6	132	12
Within 2-5 years	253	166	-	68
After 5 years	-	-	90	-
	253	172	222	80

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

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 administered 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

The long-term contribution rates for the Bradford and Margam components are 12.9% and 19.5% respectively and these have been paid from January 2006

Financial Reporting Standard 17 ("Retirement Benefits")

FRS17 has been fully adopted by BorgWarner Limited for 31 December 2005 and 2006 accounts

The actuarial valuation of the defined benefit plan was updated to 31 December 2006 The principal actuarial assumptions used at 31 December are shown below

	At 31 December 2006	At 31 December 2005	At 31 December 2004
Rate of increase in salaries	3.25% p a	3.25% p a	4.00% p a
Rate of increase of pensions in payment and deferment	3.00% p a	2.75% p a	2.75% p a
Discount Rate	5.00% p a	4.75% p a	5.40% p a
Inflation assumption	3.00% p a	2.75% p a	2.75% 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 2006	Value at 31 December 2006 £'000	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
Equities	8.7%	56,170	8.9%	50,360	8.0%	40,920
Bonds	4.5%	28,930	4.1%	26,940	4.4%	21,620
Other assets	-	-	4.5%	70	4.5%	350
Total market value of assets		85,100		77,370		62,890
Actuarial value of liabilities		(97,860)		(99,220)		(81,420)
Deficit in the scheme		(12,760)		(21,850)		(18,530)
Related deferred tax asset		3,861		6,555		5,559
Net pension liability		<u>(8,899)</u>		<u>(15,295)</u>		<u>(12,971)</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

20. PENSION SCHEME (continued)

Analysis of amount chargeable to operating profit:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Current service cost	3,260	3,420
Past service costs	300	-
Net charge	<u>3,560</u>	<u>3,420</u>

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

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Expected return on pension scheme assets	5,830	4,380
Interest on pension scheme liabilities	(4,640)	(4,310)
Net charge	<u>1,190</u>	<u>70</u>

Movement in deficit during the year:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Deficit in scheme at the beginning of the year	(21,850)	(18,530)
Current and past service cost	(3,560)	(3,420)
Contributions	6,400	5,270
Other finance income	1,190	70
Actuarial gain / (loss)	5,060	(5,240)
Deficit in scheme at the end of the year	<u>(12,760)</u>	<u>(21,850)</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

20 PENSION SCHEME (continued)

History of experience gains and losses:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Difference between expected and actual return on scheme assets				
Amount	(120)	7,360	860	3,820
Percentage of scheme assets	(0.14%)	9.51%	1.37%	6.83%
Experience gains and (losses) on scheme liabilities				
Amount	3,110	6,840	1,660	(2,220)
Percentage of scheme liabilities	3.18%	6.9%	2.04%	(2.95%)
Changes in assumptions underlying present value of scheme liabilities				
Amount	2,070	(19,440)	(3,440)	(3,440)
Percentage of scheme assets	2.43%	(25.14%)	(5.47%)	(6.15%)
Total amount recognised in statement of total recognised gains and losses				
Amount	5,060	(5,240)	(920)	(1,840)
Percentage of present value of scheme liabilities	5.17%	(5.28%)	(1.13%)	(2.44%)

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 2006 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.