

BORGWARNER LIMITED

Report and Financial Statements 31 December 2010

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BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Independent auditors' report	6
Profit and loss account	8
Note of historical cost profits and losses	8
Statement of recognised gains and losses	9
Balance sheet	10
Notes to the financial statements	11

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Berry (appointed 31 December 2010)
J Bertsch (appointed 31 December 2010)
M D Fischer
P Kaempfer (appointed 31 December 2010)
A McMaken (appointed 1 December 2010)
C Polzin (appointed 31 December 2010)
S Spencer (appointed 31 December 2010)

COMPANY SECRETARY

P Berry

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
West Yorkshire
BD4 6SE

BANKERS

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London
EC2N 2DB

Barclays Bank Plc
10 Market Street
Bradford
BD1 1NR

SOLICITORS

Pinsent Masons
1 Park Row
Leeds
LS1 5AB

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

BORGWARNER LIMITED

DIRECTORS' REPORT

Year ended 31 December 2010

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2010

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £7,305,000 (2009 loss £8,711,000) No dividend is proposed (2009 £nil), leaving a profit for the year of £7,305,000 to be transferred to reserves (2009 loss of £8,711,000)

Business review and principal activities

In June 2010 production ceased at the Company's driveline facility at Margam. The land and buildings were sold in February 2011 for £1,700,000 having been held in the accounts at 31 December 2010 at a value of £1,068,000. The sale realised a profit of £632,000 which will be recorded in the accounts to 31 December 2011.

The Company's principal activities are the manufacture and sale of turbochargers and driveline components to the automotive industry worldwide. The Company ceased business associated with driveline components during the year.

As indicated in the profit and loss account, the Company's sales have increased by 63% over the prior year, and the Company's profitability has improved from a loss of £8,711,000 to a profit of £7,305,000. The 2009 loss for the year included costs associated with the restructuring, the impact of which was £2,199,000.

The balance sheet shows that the Company's financial position at the year end is improved over the prior financial year. The net assets have increased due to the improved trading performance and due to the positive movement of the pension scheme by £3,386,000 from a liability of £8,489,000 to a liability of £5,103,000. Details of the amounts owed to other group undertakings have been disclosed in notes 13 and 14 of the financial statements. These have reduced from £24,061,000 to £19,048,000. The Company's cash balance increased from £1,301,000 to £2,887,000 at the financial year end.

BorgWarner Inc manages its global 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 financial statements of BorgWarner Inc.

Future Developments

The directors consider that the Company is well positioned in the market and has a strong customer order book. The company is engaged in development activities on significant new customer projects and feels positive that these will provide profitable future revenues. The directors are of the opinion that the cessation of the driveline activities is favourable to the Company's financial security and that this will enhance the Company's future profitability.

Principal risks and uncertainties

Competitive world pressures in the automotive industry 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.

BORGWARNER LIMITED

DIRECTORS' REPORT (CONTINUED)

Year ended 31 December 2010

Credit Risk Policy

The Company actively monitors the performance and financial strength of its customers and has procedures in place to minimise risks associated with adverse information as it may arise

Liquidity Risk

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.

Financial risk management

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 primarily 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.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review above.

The group has considerable financial resources together with long-term customer and supplier contracts across different geographical areas. Consequently, the directors believe that the Company is well placed to successfully manage its business risk despite the uncertainties in the current economic climate.

After making enquiries and considering the future trading forecasts, the directors have received confirmation from the ultimate parent Company that they will support this Company and make further funding available if necessary for the Company to meet its liabilities. Consequently, the directors are satisfied that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Environment

BorgWarner Limited 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.

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.

The Company consults employees on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests. The Company encourages the involvement of employees in the Company's performance through bonuses linked to performance metrics.

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' REPORT (CONTINUED)
Year ended 31 December 2010

Third party indemnity

The Company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This was in force throughout the financial year and up to the date of this report.

Directors

The directors who served during the year and up to the date of signing the financial statements are shown below.

P Berry (appointed 31 December 2010)
J Bertsch (appointed 31 December 2010)
M D Fischer
P Kaempfer (appointed 31 December 2010)
A McMaken (appointed 1 December 2010)
C Polzin (appointed 31 December 2010)
S Spencer (appointed 31 December 2010)
C Tait (resigned 1 December 2010)

Charitable Donations

The Company made £29,970 (2009 £8,327) of donations to charity in 2010.

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 2010 represent 60 creditor days (2009 47 days) based on the total amounts invoiced by suppliers during the year.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

- Select suitable accounting policies and then apply them consistently,
- Make judgements and accounting estimates that are reasonable and prudent,
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BORGWARNER LIMITED

DIRECTORS' REPORT (CONTINUED)

Year ended 31 December 2010

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

Disclosure of Information to Auditors

Each of the persons who are 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
- Each director has taken all the steps that he / she ought to have taken as a director to make himself / 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 section 418 of the Companies Act 2006.

Independent Auditors

PricewaterhouseCoopers 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.

On behalf of the Board



P Berry
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

We have audited the financial statements of BorgWarner Limited for the year ended 31 December 2010 which comprise the Profit and Loss account, the Note of Historical Cost Profits and Losses, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 4 and 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year 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.

Opinion on other matter prescribed by the Companies Act 2006

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Randal Casson (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

Date 30 March 2011

BORGWARNER LIMITED

PROFIT AND LOSS ACCOUNT **Year ended 31 December 2010**

	Note	2010 £'000	2009 £'000
Turnover	2		
Continuing		70,548	36,643
Discontinued		5,552	10,137
		<u>76,100</u>	<u>46,780</u>
 Cost of Sales	3	 (57,131)	 (45,917)
 Gross Profit		 18,969	 863
 Operating expenses	3	 (7,979)	 (11,775)
 OPERATING PROFIT / (LOSS)	4	 10,990	 (10,912)
 Costs of the fundamental restructuring	4/5	 (4,096)	 (3,054)
Utilisation of 2009 provision	4/5	3,054	-
Net cost of the fundamental restructuring		<u>(1,042)</u>	<u>(3,054)</u>
 Interest payable and similar charges	6	 (381)	 (251)
Other finance income	20	830	210
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>10,397</u>	<u>(14,007)</u>
 Tax on profit / (loss) on ordinary activities	8	 (3,092)	 5,296
PROFIT / (LOSS) FOR THE FINANCIAL YEAR	17	<u>7,305</u>	<u>(8,711)</u>

Further analysis of continuing and discontinued operations is given in note 4

NOTE OF HISTORICAL COST PROFITS AND LOSSES **Year ended 31 December 2010**

	2010 £'000	2009 £'000
Profit / (Loss) on ordinary activities before taxation	10,397	(14,007)
 Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the re-valued amount	 59	 460
 Historical cost profit / (loss) on ordinary activities before taxation	 10,456	 (13,547)
Historical cost profit / (loss) for the year after taxation	<u>7,364</u>	<u>(8,251)</u>

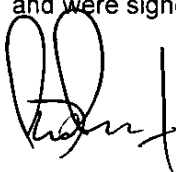
BORGWARNER LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
Year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Profit / (Loss) for the financial year		7,305	(8,711)
Gain on pension scheme assets	20	2,850	4,950
Loss on pension scheme liabilities	20	(460)	(120)
Loss on change of assumptions in relation to pension scheme liabilities	20	(2,210)	(14,100)
Deferred tax on actuarial gains and losses	20	(50)	2,596
Total recognised gains and losses relating to the year		<u>7,435</u>	<u>(15,385)</u>

BORGWARNER LIMITED**BALANCE SHEET
As at 31 December 2010**

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Tangible assets	9	12,809	14,601
Investments	10	2,833	2,833
		<u>15,642</u>	<u>17,434</u>
CURRENT ASSETS			
Stocks	11	8,145	5,785
Debtors	12	16,869	19,226
Assets held for sale	9	1,068	-
Cash at bank and in hand		2,887	1,301
		<u>28,969</u>	<u>26,312</u>
CREDITORS: amounts falling due within one year	13	(19,608)	(19,918)
NET CURRENT ASSETS		<u>9,361</u>	<u>6,394</u>
		25,003	23,828
CREDITORS amounts falling due after more than one year	14	(12,930)	(12,930)
PROVISIONS FOR LIABILITIES	15	(1,624)	(4,498)
NET ASSETS BEFORE PENSION LIABILITY		<u>10,449</u>	<u>6,400</u>
Pension liability	20	(5,103)	(8,489)
NET ASSETS / (LIABILITIES) AFTER PENSION LIABILITY		<u>5,346</u>	<u>(2,089)</u>
CAPITAL AND RESERVES			
Called up share capital	16	10,190	10,190
Revaluation reserve	17	-	59
Profit and loss account	17	(4,844)	(12,338)
TOTAL SHAREHOLDERS' FUNDS / (DEFICIT)		<u>5,346</u>	<u>(2,089)</u>

These financial statements on pages 8 to 30 were approved by the Board of Directors on 30 March 2011 and were signed on its behalf by



P Berry
Director
BorgWarner Limited, Company Registration number 2346109

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2010**

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards and the Companies Act 2006. The particular accounting policies adopted are described below and 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 has taken advantage of FRS 1 (Revised 1996) Cash Flow Statement, as this company's ultimate parent company, BorgWarner Inc, published consolidated financial statements which include a consolidated cash flow statement dealing with the cash flows of the group, including this company. The financial statements of BorgWarner Inc are available from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

Group financial statements

The directors have not presented consolidated financial statements because the company is a wholly owned subsidiary undertaking of BorgWarner Holdings Limited, a company registered in England and Wales, which prepares consolidated financial statements. 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.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the Directors' report.

Turnover

Turnover comprises the value of sales (excluding value added tax and trade discounts) of goods despatched in the normal course of business. Revenue is recognised at the point of shipment.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

Pension costs (Continued)

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

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. Associated pension costs are expensed in the profit and loss account when incurred

Fixed asset investments

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost or re-valued amount less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

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

Freehold land and buildings	25 years
Plant and machinery	3 to 10 years

There is no depreciation on freehold land

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 company'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 re-valued unless by the balance sheet date there is a binding agreement to sell the re-valued 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

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **Year ended 31 December 2010**

1. ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

Rentals under operating leases and lease incentives received are charged on a straight-line basis to the profit and loss account over the term of the lease even if the payments are not made on such a basis.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis.

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.

Provisions

Provisions are recognised when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are recorded for restructuring, retirements, onerous contracts, and other obligations. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Balance Sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability. Provisions for onerous contracts are recorded when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to arise from that contract, taking into account impairment of fixed assets first.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**2 SEGMENTAL INFORMATION**

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

	2010 £'000	2009 £'000
Sales to third parties	65,524	38,850
Sales to fellow group undertakings	<u>10,576</u>	<u>7,930</u>
	<u>76,100</u>	<u>46,780</u>

Contributions to turnover by geographical destination were as follows

	2010 £'000	2009 £'000
United Kingdom	6,102	4,707
Rest of Europe	66,548	39,806
Rest of the World	<u>3,450</u>	<u>2,267</u>
	<u>76,100</u>	<u>46,780</u>

All turnover arises in the United Kingdom

3. ANALYSIS OF PROFIT AND LOSS ACCOUNT

	2010 £'000	2009 £'000
Cost of sales	<u>57,131</u>	<u>45,917</u>
Operating expenses, net		
Distribution costs	1,960	1,578
Administrative expenses:		
General	<u>7,183</u>	<u>10,197</u>
Total administrative expenses	<u>9,143</u>	<u>11,775</u>

Driveline activities at the Margam facility are classified as discontinuing in 2009 and 2010 as the plant ceased production in June 2010

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**4. OPERATING PROFIT / (LOSS)**

	2010 £'000	2009 £'000
Operating profit / (loss) is stated after charging / (crediting)		
Depreciation of tangible fixed assets	2,536	1,719
- owned assets		
Operating lease rentals	98	160
- plant and machinery		
- other	93	91
(Profit) / Loss on disposal of fixed assets	(60)	62
Deferred revenue – grant income	-	925
	<hr/>	<hr/>
	2010 £'000	2009 £'000
Fees payable to the company's auditors for the audit of the company's annual financial statements	69	69
	<hr/>	<hr/>
Total fees	<hr/> 69	<hr/> 69

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2010

**4. OPERATING PROFIT / (LOSS)
(CONTINUED)**

	Cont	Discont	Total	Cont	Discont	Total
	2010 £'000	2010 £'000	2010 £'000	2009 £'000	2009 £'000	2009 £'000
Turnover	70,548	5,552	76,100	36,643	10,137	46,780
Cost of sales	(51,579)	(5,430)	(57,009)	(33,189)	(14,564)	(47,753)
Plus transfer to exceptionals	-	(122)	(122)	-	1,836	1,836
Total cost of sales	(51,579)	(5,552)	(57,131)	(33,189)	(12,728)	(45,917)
Gross profit	18,969	-	18,969	3,454	(2,591)	863
Other operating expenses	(7,979)	(4,218)	(12,197)	(8,844)	(4,149)	(12,993)
Less transfer to exceptionals	-	4,218	4,218	-	1,218	1,218
	(7,979)	-	(7,979)	(8,844)	(2,931)	(11,775)
Operating Profit / (Loss)	10,990	-	10,990	(5,390)	(5,522)	(10,912)
Costs of the fundamental restructuring						
Transfer from cost of sales	-	122	122	-	(1,836)	(1,836)
Transfer from operating expenses	-	(4,218)	(4,218)	-	(1,218)	(1,218)
Utilisation of 2009 provision	-	3,054	3,054	-	-	-
Net costs of the fundamental restructuring	-	(1,042)	(1,042)	-	(3,054)	(3,054)
Interest payable and similar charges	(381)	-	(381)	(251)	-	(251)
Other finance income	830	-	830	210	-	210
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	11,439	(1,042)	10,397	(5,431)	(8,576)	(14,007)
Tax on profit / (loss) on ordinary activities						
PROFIT / (LOSS) FOR THE FINANCIAL YEAR						
			(3,092)			5,296
			7,305			(8,711)

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**5. EXCEPTIONAL ITEMS REPORTED AFTER OPERATING PROFIT**

The costs of a fundamental restructuring arose in respect of actions taken at the Margam driveline division in 2010 of £1,042,000 (2009 £3,054,000), associated with impairment provisions and redundancy costs. Refer to note 4 for further details.

Original estimates were made at 31 December 2009 for full closure costs relating to the driveline facility, further provisions were required during 2010 for additional closure and warranty costs.

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

	2010 £'000	2009 £'000
Cost of a fundamental restructuring		
Restructuring	(1,042)	(3,054)
	<u>(1,042)</u>	<u>(3,054)</u>
Tax impact	292	855
Net impact on loss for the financial year	<u>(750)</u>	<u>(2,199)</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2009 £'000
Bank loans and overdrafts	142	64
Intercompany loans	239	187
	<u>381</u>	<u>251</u>

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2010 £'000	2009 £'000
Employee costs during the year amounted to		
Wages and salaries	12,835	9,482
Social security costs	1,052	855
Other pension costs (note 20)	1,004	1,810
	<u>14,891</u>	<u>12,147</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2010****7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)**

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

	2010 £'000	2009 £'000
Production and engineering	301	322
Sales	4	7
Administration	96	54
	<u>401</u>	<u>383</u>

	2010 £'000	2009 £'000
Directors' remuneration		
Aggregate emoluments	<u>-</u>	<u>-</u>

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

	2010 £'000	2009 £'000
Defined benefit scheme	<u>-</u>	<u>-</u>

During the year the Directors consider that their services to the Company were incidental to their other duties and accordingly no remuneration, fees or other benefits were paid to the Directors by the Company or costs allocated to it

During the year no (2009: nil) directors exercised options over shares in BorgWarner Inc

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

	2010 £'000	2009 £'000
Current taxation credit is based on the profit / (loss) for the year and comprises		
United Kingdom corporation tax credit at 28% (2009: 28%)	-	(1,524)
Adjustments in respect of prior years corporation tax	<u>-</u>	<u>(1,547)</u>
Total current taxation	-	(3,071)
Deferred taxation		
- Origination and reversal of timing differences	3,041	(2,207)
- Deferred tax rate difference	133	-
- Adjustment in respect of prior years	<u>(82)</u>	<u>(18)</u>
Total taxation charge / (credit)	<u>3,092</u>	<u>(5,296)</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**8. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)**

The tax assessed for the year is lower (2009 higher) than that resulting from applying the standard effective rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below:

	2010 £'000	2009 £'000
Profit / (Loss) on ordinary activities before taxation	10,397	(14,007)
Profit / (Loss) on ordinary activities multiplied by standard rate in the UK 28% (2009 28%)	2,911	(3,922)
Effects of		
Expenses not deductible for tax purposes	130	164
Capital allowances in excess of depreciation / accelerated capital allowances	(41)	97
Movement in short term timing differences	(1,818)	(470)
Losses carried forward	(1,182)	2,607
Adjustments in respect of prior years corporation tax	-	(1,547)
Current tax charge / (credit) for the year	<u>-</u>	<u>(3,071)</u>

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date

The Finance (No2) Act, substantially enacted on 20 July 2010, includes legislation to reduce the main rate of corporation tax to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by April 2014 These changes had not been substantively enacted at the balance sheet date and therefore, are not included in these financial statements The impact of these changes is not expected to be material to these financial statements

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2010

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2010	5,414	35,639	41,053
Additions	98	2,023	2,121
Transferred to Current Assets	(1,926)	-	(1,926)
Disposals	(32)	(16,526)	(16,558)
At 31 December 2010	<u>3,554</u>	<u>21,136</u>	<u>24,690</u>
Accumulated depreciation			
At 1 January 2010	2,294	24,158	26,452
Charge for the year	157	2,379	2,536
Transferred to Current Assets	(858)	-	(858)
Disposals	(27)	(16,222)	(16,249)
At 31 December 2010	<u>1,566</u>	<u>10,315</u>	<u>11,881</u>
Net book value			
At 31 December 2010	<u>1,988</u>	<u>10,821</u>	<u>12,809</u>
At 31 December 2009	<u>3,120</u>	<u>11,481</u>	<u>14,601</u>

Freehold land amounting to £207,547 (2009 £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 2010, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £1,743,000 (2009 £2,875,000) and £10,736,000 (2009 £11,396,000) respectively.

Freehold land and buildings with an original cost of £1,926,000 and accumulated depreciation of £858,000 were transferred to Current Assets at 31 December 2010 as these assets were not in use and were subject to a sale agreement on 24 December 2010. These assets were subsequently sold in February 2011 giving rise to a profit on disposal of £632,000.

10. INVESTMENTS

Subsidiary undertakings	£'000
Cost and net book value	
At 31 December 2010 and 31 December 2009	<u>2,833</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31 December 2010

10. INVESTMENTS (CONTINUED)

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

	Country of incorporation/ registration	Principal activity	Description of shares held	Proportions of shares held
Kysor (Europe) Limited	England and Wales	Dormant	£1 ordinary shares	100%

11. STOCKS

	2010 £'000	2009 £'000
Raw materials and consumables	4,459	3,023
Work-in-progress	2,934	1,731
Finished goods and goods for resale	752	1,031
	<u>8,145</u>	<u>5,785</u>

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

12. DEBTORS

	2010 £'000	2009 £'000
Amounts falling due within one year		
Trade debtors	14,035	10,369
Amounts owed by group undertakings	163	3,941
Value added tax	92	317
Deferred taxation	1,690	3,418
UK corporation tax receivable	699	315
Prepayments and accrued income	190	866
	<u>16,869</u>	<u>19,226</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2010****12. DEBTORS (CONTINUED)**

The amounts of deferred taxation provided / receivable in the financial statements and the amounts not provided are as follows

	Provided	Not provided	Provided	Not provided
	2010	2010	2009	2009
	£'000	£'000	£'000	£'000
Capital allowances in advance of depreciation	(455)	-	(416)	-
Short-term timing differences	98	-	1,228	-
Tax loss carried forward	2,047	-	2,606	-
	<u>1,690</u>	<u>-</u>	<u>3,418</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 £151,573 (2009 £151,573)

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£'000	£'000
Trade creditors	10,685	5,427
Amounts owed to other group undertakings	6,118	11,131
Other creditors		
- UK corporation tax payable	-	1,824
- Social security and PAYE	305	311
Accruals and deferred income	2,500	3,049
	<u>19,608</u>	<u>19,918</u>

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

	2010	2009
	£'000	£'000
Amounts owed to group undertakings	<u>12,930</u>	<u>12,930</u>

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

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**15 PROVISIONS FOR LIABILITIES**

	Product warranties	Restructuring provision	Total
	£'000	£'000	£'000
Provisions for liabilities comprise			
At 1 January 2010	1,444	3,054	4,498
Charged to profit and loss account	731	-	731
Utilised in year	(551)	(3,054)	(3,605)
At 31 December 2010	<u>1,624</u>	<u>-</u>	<u>1,624</u>

Best estimates have been made in respect of warranty costs arising in situations where products, having been sold, are known or likely to have a future liability to the Company. Provisions for significant product returns are only made when knowledge of specific events are known. Payments are generally expected to occur within a period of three years from the balance sheet date.

Restructuring provisions were made in 2009 for employee severance costs and contingent losses, in respect of activities from which the company is either withdrawing or there is a reduction in demand. These amounts can be calculated to a high degree of certainty, and will be paid within a period of one year of the balance sheet date.

During 2009, it was assessed that the remaining forecast trading at the Margam facility should be classified as an onerous contract. These costs have been recognised within the restructuring provision above and disclosed as a fundamental restructuring cost in the profit and loss account. Further analysis is provided in notes 4 and 5 of the amounts charged in 2009 and 2010.

16. CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
20,000,000 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>
Allotted and fully paid		
10,190,002 (2009 10,190,002) ordinary shares of £1 (2009 £1) each	<u>10,190</u>	<u>10,190</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2010

17 RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2010	59	(12,338)
Actuarial gain for current year under FRS17	-	180
Deferred tax under FRS17	-	(50)
Retained profit for the financial year	-	7,305
Transfer of amount equivalent to additional depreciation on re-valued assets	(59)	59
At 31 December 2010	<u>-</u>	<u>(4,844)</u>

£16,000 (2009 £129,000) has been credited to deferred taxation in the year in respect of amounts debited to the revaluation reserve

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £'000	2009 £'000
Profit / (Loss) for the financial year	7,305	(8,711)
Actuarial gain / (loss)	180	(9,270)
Deferred tax on actuarial (gain) / loss	(50)	2,596
Net increase / (reduction) in shareholders' funds	<u>7,435</u>	<u>(15,385)</u>
Opening shareholders' (deficit) / funds	(2,089)	13,296
Closing shareholders' funds / (deficit)	<u>5,346</u>	<u>(2,089)</u>

19 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Capital commitments at the end of the year were

	2010 £'000	2009 £'000
Contracted for but not provided for	<u>3,649</u>	<u>1,329</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**19 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)****(b) Lease commitments.**

The company 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.

	2010		2009	
	Property	Plant and machinery	Property	Plant and machinery
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	-	9	-	32
Within 2 – 5 years	161	155	258	80
After 5 years	-	-	-	22
	<u>161</u>	<u>164</u>	<u>258</u>	<u>134</u>

20. PENSION SCHEME

The group participates in an approved pension plan (the "Plan") of which the company is a part. 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 group. The pension asset / (liability) is all held within BorgWarner Limited and is not a closed scheme. The asset / (liability) is accounted for in BorgWarner Limited financial statements and then consolidated into BorgWarner Holdings Limited financial statements.

Defined benefit schemes

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2008 and updated to 31 December 2010 for the purposes of FRS17 'Retirement Benefits'. The present value of defined benefit obligations and related current service cost and past service cost was measured using the projected unit credit cost method.

The projected unit credit cost method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

The principal actuarial assumptions used at 31 December are shown below.

	2010	2009
Rate of increase in salaries	n/a	2.75% p.a.
Rate of increase of pensions in payment and deferment (LPI 5%)	3.25% p.a.	2.75% p.a.
Rate of increase of pensions in payment and deferment (LPI 2.5%)	2.25% p.a.	2.25% p.a.
Discount rate	5.60% p.a.	5.75% p.a.
Inflation assumption	3.25% p.a.	2.75% p.a.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**20. PENSION SCHEME (CONTINUED)**

	2010 Years	2009 Years
Mortality assumptions		
Retiring today		
Males	20.4	20.3
Females	23.5	23.4
Retiring in 20 years		
Males	21.7	21.6
Females	24.9	24.8

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows

	2010 £'000	2009 £'000
Analysis of amount chargeable to operating profit		
Current service cost	-	1,400
Net charge	-	1,400
Gain on curtailment	-	690
Net gain	-	690

	2010 £'000	2009 £'000
Analysis of the amount to be credited to other finance income		
Expected return on pension scheme assets	5,950	5,140
Interest on pension scheme liabilities	(5,120)	(4,930)
Net income	830	210

Actuarial gains and losses have been reported in the statement of total recognised gains and losses. The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS17 'Retirement Benefits' is a loss of £20,604,000 (2009: loss of £20,734,000).

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit schemes is as follows

	2010 £'000	2009 £'000
Present value of defined benefit obligations	(94,560)	(91,160)
Fair value of scheme assets	87,570	79,370
Deficit in scheme	(6,990)	(11,790)
Related deferred tax	1,887	3,301
Liability recognised in balance sheet	(5,103)	(8,489)

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2010

20 PENSION SCHEME (CONTINUED)

Movements in the present value of defined benefit obligations were as follows

	2010 £'000	2009 £'000
At 1 January	91,160	77,080
Service cost	-	1,400
Interest cost	5,120	4,930
Actuarial loss	2,670	14,220
Benefits paid	(4,390)	(5,780)
Curtailments	-	(690)
At 31 December	<u>94,560</u>	<u>91,160</u>

Movements in the fair value of scheme assets were as follows

	2010 £'000	2009 £'000
At 1 January	79,370	70,700
Expected return on scheme assets	5,950	5,140
Actuarial gain	2,850	4,950
Employer contributions	3,790	4,360
Benefits paid	(4,390)	(5,780)
At 31 December	<u>87,570</u>	<u>79,370</u>

The analysis of scheme assets and the expected rate of return at the balance sheet date were as follows

	2010		2009	
	Expected rate of return	Fair value of assets £'000	Expected rate of return	Fair value of assets £'000
Equity instruments	8.5% p a	50,090	8.5% p a	49,368
Bonds	4.5% p a	33,802	4.5% p a	25,875
Other assets	3.5% p a	3,678	3.5% p a	4,127
		<u>87,570</u>		<u>79,370</u>

Other assets are represented by cash deposits and property

The actual rate of return achieved on scheme assets for the year to 31 December 2010 was 10.0% (2009 15.1%)

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2010**20. PENSION SCHEME (CONTINUED)**

The overall expected return on asset assumptions is chosen having regard to the weighted average of the expected returns from each of the main asset classes in which the plan is invested at the start of the year. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets as suggested by the yields available, and the views of the investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

The five-year history of experience adjustments is as follows

	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Difference between expected and actual return on scheme assets					
Amount	2,850	4,950	(21,800)	(440)	(120)
Percentage of scheme assets	3.25%	7.00%	(30.83%)	(0.49%)	(0.14%)
Experience gains/(losses) on scheme liabilities					
Amount	(460)	(120)	(2,450)	(470)	3,110
Percentage of scheme liabilities	(0.50%)	(0.16%)	(3.18%)	(0.53%)	3.18%
Changes in assumptions underlying present value of scheme liabilities					
Amount	(2,210)	(14,100)	16,210	9,500	2,070
Percentage of scheme assets	(2.52%)	(19.94%)	22.93%	10.63%	2.43%
Total amount recognised in statement of total recognised gains and losses					
Amount	180	(9,270)	(8,040)	8,590	5,060
Percentage of present value of scheme liabilities	0.19%	(12%)	(10.43%)	9.65%	5.17%

The company estimates that there will be contributions to the scheme of £3,440,000 during the accounting period 1 January 2011 to 31 December 2011.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **Year ended 31 December 2010**

20. PENSION SCHEME (CONTINUED)

The movements in the statement of total recognised gains and losses were as follows

	2010 £'000	2009 £'000
Gain on pension scheme assets	2,850	4,950
Loss on pension scheme	(460)	(120)
Loss on change of assumptions in relation to pension scheme liabilities	(2,210)	(14,100)
	<u>180</u>	<u>(9,270)</u>
Deferred tax on actuarial gains and losses	(50)	2,596
	<u>130</u>	<u>(6,674)</u>

Defined contribution scheme

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £1,003,914 (2009: £409,737) represents contributions payable to the scheme by the group at rates specified in the rules of the plans. As at 31 December 2010, there was £82,396 (2009: £15,764) due in respect of the current reporting period had not been paid over to the scheme.

21. DERIVATIVES NOT INCLUDED AT FAIR VALUE

The company has derivatives which are not included at fair value in the financial statements

	Principal		Fair value	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Forward foreign exchange contracts	<u>92,048</u>	<u>63,022</u>	<u>(2,941)</u>	<u>(7,889)</u>

The company uses the derivative to hedge its exposures to changes in foreign currency exchange rates arising from foreign currency purchases.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2010

22. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of BorgWarner Holdings Limited, which heads the smallest group into which the company is consolidated

At 31 December 2010, the ultimate parent undertaking and largest group for which consolidated financial statements are prepared was BorgWarner 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 directors regard BorgWarner Inc to be the ultimate controlling party

The company has taken advantage of the exemption contained in Financial Reporting Standard number 8, 'Related Party Disclosures' not to disclose related party transactions with other group companies as it is a wholly owned subsidiary

23. POST BALANCE SHEET EVENT

Assets held for sale in the Balance Sheet at 31 December 2010 at a net book value of £1,068,000 were sold in February 2011 for £1,700,000. This sale of land and buildings realised a profit of £632,000 which will be recorded in the accounts to 31 December 2011