

BORGWARNER LIMITED

Report and Financial Statements 31 December 2015



BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2015

CONTENTS	Page
Officers and professional advisers	1
Strategic report for the year ended 31 December 2015	2
Directors' report for the year ended 31 December 2015	4
Independent auditors' report to the members of Borgwarner Limited	7
Income statement for the year ended 31 December 2015	9
Statement of comprehensive income for the year ended 31 December 2015	10
Balance sheet as at 31 December 2015	11
Statement of changes in equity as at 31 December 2015	12
Notes to the financial statements for the year ended 31 December 2015	13

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2015

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Allen
P Berry
M D Fischer
T McGill
A McMaken
R Nieves
C Polzin

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

SOLICITORS

Pinsent Masons
1 Park Row
Leeds
LS1 5AB

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
29 Wellington Street
Leeds
LS1 4DL

STRATEGIC REPORT
Year ended 31 December 2015

The directors present their strategic report on the Company for the financial year ended 31 December 2015

Principal activities

The principal activity of the Company is the manufacture and sale of turbochargers and components. The principal activity of the parent Company is that of a holding company.

Review of the business

The profit for the financial year is £8,026,000 (2014: £11,291,000). No dividend is proposed (2014: £nil), leaving a profit for the financial year of £8,026,000 to be transferred to reserves (2014: £11,291,000).

As indicated in the income statement, the Company's sales have reduced by £26.2% (2014: increase of 1.5%) compared to the financial year ended 31 December 2014, with the Group's profitability lower by £3,265,000 to £8,026,000. The reduction in turnover was due to higher sales experienced during 2014 in respect of pre-buy in the off-highway market, the consequential of which was lower demand for 2015 Tier4 final products. The profitability has reduced due to costs incurred in developing applications for entry into the passenger car turbocharger market the business of which will commence in 2016.

The consolidated balance sheet shows that the Company's financial position at the year-end has further improved, and includes cash balances of £3,964,000 and the acquisition of Company investments of £29,240,000 (note 10).

Net assets have increased due to the trading performance and are £3,887,000 higher than at 31 December 2014. The pension scheme asset at 2015 has increased to £4,844,000 (net of deferred taxation) and is now fully funded. This is due to the favourable fund returns that were 1.1% for the year, the past service deficit contributions of £4,296,000 and the impact of a increase in the discount rate from 3.60% to 3.70%. The Company has however agreed with the Pension Trustees that the past service deficit contributions will continue until the deficit from the 2014 actuarial valuation is eliminated in full.

Non-financial risks

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.

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 turnover.

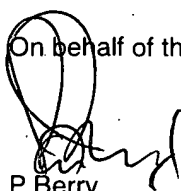
STRATEGIC REPORT (CONTINUED)**Year ended 31 December 2015****Key performance indicators ("KPIs")**

The Company's strategy is one of growth with improved profitability. The directors monitor progress against this strategy by reference to a number of KPIs.

Performance for the year, together with comparative data for the previous year is set out in the table below:

	2015	2014	Definition, method of calculation and analysis
Growth in sales (%)	(26.2)%	1.5%	Year on year sales growth expressed as a percentage. The year on year decrease is a result of higher in product demand in the previous year in advance of the new emission legislation of Tier4 final became effective during 2014 and 2015
Return on sales (%)	10.8%	11.8%	Return on sales is the ratio of profit on ordinary activities before taxation to sales expressed as a percentage. Return on sales has reduced due to costs incurred in developing applications for entry into the passenger car turbocharger market the business of which will commence in 2016
Working capital turns	12.4	51.8	Working capital turns is the ratio of sales to stocks plus trade debtors less trade creditors. The reason for the change is primarily due to the lower year end stocks and receivables
Current Ratio	1.75	2.94	The current ratio is a financial ratio that compares a firm's current assets to its current liabilities. The current ratio has reduced due to the cash investment in Band Merger Sub, Inc. during the year

On behalf of the board



P Berry
Director

27 September 2016

BORGWARNER LIMITED

DIRECTORS' REPORT

Year ended 31 December 2015

The directors present their annual report and the audited consolidated financial statements of the Company for the financial year ended 31 December 2015.

Future developments

An indication of the likely future developments of the business is included in the Strategic Report on page 2.

Political donations

There were no political donations during the financial year (2014: £nil).

Dividends

The directors do not recommend the payment of a dividend (2014: £nil).

Financial risk management

The UK business is exposed to metal commodity price risks, which are managed through a progressive cost reduction strategy and contractual arrangements with the customer base.

A moderate proportion of 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.

As a subsidiary of BorgWarner Europe GmbH, further details of Company policies in relation to external financial risks, can be found in the Annual Report and Financial Statements of BorgWarner Europe GmbH. Copies of its financial statements can be obtained from Hockenheimer Str. 165-167, 68775 Ketsch, Germany.

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.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

A Allen
P Berry
M D Fischer
T McGill
A McMaken
R Nieves
C Polzin

Directors' indemnities

The Company maintained throughout the year, and at the date of approval of the financial statements, liability insurance for its directors and officers. This is a qualifying provision for the purposes of the Companies Act 2006.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 December 2015

Research and Development

The Company is engaged in Research and Development activities and is committed to innovation and technological developments for future business awards.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities 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 the 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.

Employee consultation

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

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.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102), 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 comprising FRS 102 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.

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.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 December 2015

Statement of disclosure of information to auditors

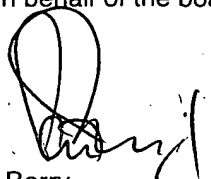
In the case of each of the persons who are directors at the time when the report is approved under section 418 of the Companies Act 2006 the following applies:

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the board



P Berry
Director
27 September 2016

Registered number: 2346109 Roydsdale Way, Bradford, BD4 6SE

BORGWARNER LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

Report on the financial statements

Our opinion

In our opinion, BorgWarner Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 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.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2015;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

BORGWARNER LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

27 September 2016

BORGWARNER LIMITED**INCOME STATEMENT****Year ended 31 December 2015**

	Note	2015 £'000	2014 £'000
Turnover	4	84,160	114,049
Cost of Sales		<u>(62,237)</u>	<u>(84,959)</u>
GROSS PROFIT		21,923	29,090
Selling costs		(1,926)	(2,355)
Distribution costs		(504)	(767)
Administrative expenses		<u>(10,488)</u>	<u>(12,579)</u>
OPERATING PROFIT	5	9,005	13,389
Interest receivable and similar income	7	<u>100</u>	<u>74</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,105	13,463
Tax on profit on ordinary activities	8	<u>(1,079)</u>	<u>(2,172)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>8,026</u>	<u>11,291</u>

All results derive from continuing operations.

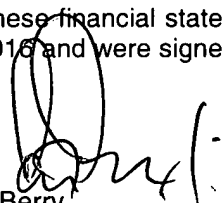
BORGWARNER LIMITED**STATEMENT OF COMPREHENSIVE INCOME**
Year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Profit for the financial year		8,026	11,291
Other comprehensive income:			
Remeasurements of net defined benefit obligation	17	<u>414</u>	<u>5,784</u>
Other Comprehensive income for the year, net of tax		<u>414</u>	<u>5,784</u>
Total Comprehensive income for the year		<u><u>8,440</u></u>	<u><u>17,075</u></u>

BORGWARNER LIMITED**BALANCE SHEET**
As at 31 December 2015

	Note	2015 £'000	2014 £'000
FIXED ASSETS			
Tangible assets	9	30,195	27,196
Investments	10	<u>32,073</u>	<u>2,833</u>
		62,268	30,029
CURRENT ASSETS			
Stocks	11	8,612	8,923
Debtors: amounts falling due within one year	12	12,568	13,644
Cash at bank and in hand		<u>3,964</u>	<u>37,250</u>
		25,144	59,817
CREDITORS : amounts falling due within one year	13	<u>(14,378)</u>	<u>(20,362)</u>
NET CURRENT ASSETS		10,766	39,455
DEBTORS : amounts falling due after more than one year		<u>337</u>	<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		73,371	69,484
CREDITORS : amounts falling due after one year		(12,930)	(12,930)
PROVISIONS FOR LIABILITIES	14	(1,956)	(1,665)
Pension Asset	17	4,844	-
NET ASSETS		<u>63,329</u>	<u>55,109</u>
CAPITAL AND RESERVES			
Called-up share capital	15	10,190	10,190
Retained earnings		<u>53,139</u>	<u>44,669</u>
TOTAL EQUITY		<u>63,329</u>	<u>54,889</u>

These financial statements on pages 9 to 33 were approved by the Board of Directors on 27 September 2016 and were signed on its behalf by:


P Berry
Director
BorgWarner Holdings Limited
Company Registration number 2346109

BORGWARNER LIMITED**STATEMENT OF CHANGES IN EQUITY**
As at 31 December 2015

	Called-up share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2014	10,190	27,624	37,814
Profit for the financial year	-	11,291	11,291
Other comprehensive income for the year	-	5,784	5,784
Total comprehensive income for the year	-	44,669	44,669
Balance as at 31 December 2014	10,190	46,669	54,889

	Called-up share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2015	10,190	46,669	54,889
Profit for the financial year	-	8,026	8,026
Other comprehensive income for the year	-	414	414
Total comprehensive income for the year	-	8,440	8,440
Balance as at 31 December 2015	10,190	53,169	63,329

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL INFORMATION

- Borgwarner Limited is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Roydsdale way, Euroway industrial estate, Bradford, West Yorkshire, BD4 6SE.

The principal activity of the Company is the manufacture and sale of turbochargers and components..

2. STATEMENT OF COMPLIANCE

The Company and individual financial statements of Borgwarner Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. This is the first year in which the financial statements have been prepared under FRS 102. The date of transition to FRS 102 was 1 January 2014. Details of the transition to FRS 102 are disclosed in Note 20.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the later sections of accounting policies.

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual income statement and statement of comprehensive income. The Company's profit for the financial year was £nil (2014 - £nil).

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has 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.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a Company that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the consolidated financial statements of BorgWarner Inc. which are publicly available.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exemptions for qualifying entities under FRS 102 (CONTINUED)

As a qualifying entity, the Company has taken advantage of the following exemptions:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Basis of consolidation

The Company consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings.

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

Where a subsidiary has different accounting policies to the Company, adjustments are made to those subsidiary financial statements to apply the Company's accounting policies when preparing the consolidated financial statements.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control respectively.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income statement. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

All intra-Company transactions, balances, income and expenses are eliminated on consolidation.

Foreign currency

i) Functional and presentation currency

The Company financial statements are presented in pound sterling and rounded to thousands.

The Company's functional and presentation currency is the Pound sterling.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency (continued)

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

iii) Translations

The trading results of Company undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in 'Other comprehensive income'.

Turnover

Turnover comprises the sale (excluding value added tax and trade discounts) of turbochargers to the automotive industry in the normal course of business. Turnover is recognised at the point of shipment.

Employee benefits

The Company provides a range of benefits to employees, including paid holiday arrangements, defined benefit and defined contribution pension plans.

i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension plans

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. Associated pension costs are expensed in the consolidated income statement when incurred.

iii) Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Once in three years, the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Finance expense'.

Past service cost is recognised immediately in profit or loss in the period in which they occur.

iv) Share-based payments

The Company provides share-based payment arrangements to certain employees and directors under which it grants shares of ultimate parent "BorgWarner Inc."

Equity-settled arrangements are measured at fair value (excluding the effect on nonmarket based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the income statement.

The Company has no cash-settled arrangements.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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 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 12 years

There is no depreciation on freehold land.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

Leases

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases and lease incentives received are charged on a straight-line basis to the income statement over the term of the lease.

Impairment of non-financial assets

At each quarter end non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the consolidated income statement.

If an impairment loss is subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated income statement.

Investments - Company

Investment in a subsidiary company is held at cost less accumulated impairment losses.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell. Stocks are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the weighted average price method, some of which represent the most recent purchase price. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stocks to its present location and condition.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the consolidated income statement. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the consolidated income statement.

Cash and Cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

Provisions are recorded for restructuring, retirements, onerous contracts, and other obligations.

Restructuring provisions are recognised when the Company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Financial instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the consolidated income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in consolidated income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions

ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from Company companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires

iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Critical judgements and estimates in applying the accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

- Useful economic lives of tangible assets (Sections 17)

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of assets. The useful economic lives and residual values are assessed annually. They are amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of tangible assets and note 3 above for the useful economic lives for each class of asset.

Future amendments to FRS 102

Amendments to FRS 102 were issued in July 2015 as a result of changes to the EU-directives and UK Companies Regulations. The amendments are mandatory for periods beginning on or after 1 January 2016, with early adoption permitted for periods beginning on or after 1 January 2015. Entities will have to adopt and comply with all amendments if they elect to early adopt the Amendments to FRS 102 (issued in July 2015). None of these are expected to have a significant effect on the financial statements of the Company.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2015 (continued)**4. TURNOVER**

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

	2015 £'000	2014 £'000
Sales to third parties	71,594	101,332
Sales to fellow Company undertakings	12,566	12,717
	<u>84,160</u>	<u>114,049</u>

Contributions to turnover by geographical destination were as follows:

	2015 £'000	2014 £'000
United Kingdom	7,264	17,491
Rest of Europe	72,786	92,148
Rest of the World	4,110	4,410
	<u>84,160</u>	<u>114,049</u>

All turnover arises in the United Kingdom.

5. OPERATING PROFIT

	2015 £'000	2014 £'000
Operating profit is stated after charging :		
Depreciation of tangible fixed assets		
- owned assets	3,646	3,454
Operating lease charges	311	318
Loss on disposal of fixed assets	-	6
	<u>-</u>	<u>6</u>

	2015 £'000	2014 £'000
Auditors' remuneration:		
- Fees payable to the Company's auditors for the audit of the Parent Company's annual financial statements	2	2
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	76	76
- Fees payable for Audit related assurance services	15	-
- Fees payable for tax compliance services	16	16
- Fees payable for tax advisory services	13	30
	<u>122</u>	<u>124</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2015 (continued)****6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2015 £'000	2014 £'000
Employee costs during the year amounted to:		
Wages and Salaries	11,871	13,060
Social Security Costs	1,185	1,248
Other pension Costs (note 19)	1,336	1,325
	<u>14,392</u>	<u>15,633</u>

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

	2015 Number	2014 Number
Production and Engineering	266	314
Sales	5	5
Administration	92	91
	<u>363</u>	<u>410</u>

	2015 £'000	2014 £'000
Directors' remuneration		
Aggregate remuneration	<u>297</u>	<u>274</u>
Company Pension Contribution to defined contribution scheme	<u>22</u>	<u>20</u>

During the year no compensation for loss of office was paid (2014: nil).

Retirement benefits are accruing to two directors under the Company's money purchase pension scheme (2014: two).

	2015 £'000	2014 £'000
Highest Paid Director		
Aggregate remuneration	<u>169</u>	<u>149</u>
Company pension contributions to money purchase scheme	<u>13</u>	<u>11</u>

During the year five (2014: six) of 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. These directors are either employed by BorgWarner Inc. or other non-UK subsidiaries to BorgWarner Inc. that are not controlled by BorgWarner Limited.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2015 (continued)****6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)**

Two directors (2014: Two) exercised share options during the year and shares were received or receivable in respect of qualifying services for two directors (2014: two) under a long-term incentive scheme.

During the year no compensation for loss of office was paid (2014: nil).

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £'000	2014 £'000
Interest receivable	71	70
Intercompany loans	29	4
	<u>100</u>	<u>74</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES**(a) Tax expense included in profit or loss**

	2015 £'000	2014 £'000
Current taxation charge is based on the profit for the financial year and comprises:		
United Kingdom corporation tax charge at 20.25% (2014: 21.5%)	2,324	2,672
Adjustments in respect of prior years	(1,589)	(463)
Total current taxation	<u>735</u>	<u>2,209</u>
Deferred taxation:		
- Origination and reversal of timing differences	344	(37)
Total taxation charge	<u>1,079</u>	<u>2,172</u>

The tax rate in the current year is a blended rate for the financial year based upon corporation tax rate of 21% from 1 April 2014 and 20% for the tax year from 1 April 2015.

(b) Tax expense included in other comprehensive income

	2015 £'000	2014 £'000
Deferred tax		
Deferred tax on actuarial gains and losses	(1,136)	(1,446)
Total tax expense included in other comprehensive income	<u>(1,136)</u>	<u>(1,446)</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2015 (continued)**8. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)****(c) Reconciliation of tax charge**

The tax assessed for the year is lower (2014: lower) than that resulting from applying the standard effective rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	9,105	13,463
Profit on ordinary activities multiplied by standard rate in the UK 20.25% (2014: 21.5%).	1,844	2,894
Effects of:		
Expenses not deductible for tax purposes	38	37
Capital allowances in excess of depreciation / accelerated capital allowances	(27)	53
Movement in short term timing differences	469	(312)
Adjustments in respect of prior year	(1,589)	(463)
Total tax charge for the year	<u>735</u>	<u>2,172</u>

(d) Tax rate changes

The main rate of Corporation tax in the United Kingdom reduced from 21% to 20% effective for 1 April 2015. The Finance Act 2013 also included legislation to reduce the rate to 19% from 1 April 2015. As these changes had been substantively enacted at the reporting date, the deferred tax balances have been re-measured at 19%.

In addition to the changes noted above, further changes to the main rate of Corporation tax in the United Kingdom were announced in the 2015 Summer Budget. These include further reductions from 20% to 19% effective 1 April 2017 to 31 March 2020 and to 18% effective 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

9. TANGIBLE ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2015	4,150	40,820	44,970
Additions	2,631	4,014	6,645
At 31 December 2015	<u>6,781</u>	<u>44,834</u>	<u>51,615</u>
Accumulated depreciation			
At 1 January 2015	2,081	15,693	17,774
Charge for the year	170	3,476	3,646
At 31 December 2015	<u>2,251</u>	<u>19,169</u>	<u>21,420</u>
Net book value			
At 31 December 2015	<u>4,530</u>	<u>25,665</u>	<u>30,195</u>
At 31 December 2014	<u>2,069</u>	<u>25,127</u>	<u>27,196</u>

Freehold land amounting to £207,547 (2014: £207,547) has not been depreciated.

The transitional arrangements of FRS 15 'Tangible 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 2015, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £4,335,000 (2014: £1,874,000) and £23,208,000 (2014: £22,670,000) respectively.

The directors do not believe that there is a material difference between the net book value and the market valuation of the Company's Land and Buildings.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2015 (continued)****10. INVESTMENTS**

Subsidiary Undertakings	2015 £'000	2014 £'000
Investment at cost	2,833	2,833
Investment during the year	29,240	-
Net book value	<u>32,073</u>	<u>2,833</u>

The directors believe that the carrying value of the investments is supported by their underlying net assets.

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%
Band Merger Sub, Inc.	USA	Holding Company	\$2,000,000 Class B Common Stock	4.8%

11. STOCKS

	2015 £'000	2014 £'000
Raw materials and consumables	4,773	4,792
Work-in-progress	2,837	3,063
Finished goods and goods for resale	1,002	1,068
	<u>8,612</u>	<u>8,923</u>

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

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2015 (continued)**12. DEBTORS: Amounts falling due within one year**

	2015	2014
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	10,704	12,652
Amounts owed by group undertakings	14	4
Value added tax	947	831
Corporation Tax receivable	224	-
Prepayments and accrued income	679	157
	<u>12,568</u>	<u>13,644</u>

Amounts owed to group undertakings are repayable on demand, incur no interest and carry no security.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015	2014
	£'000	£'000
Trade creditors	10,841	12,160
Amounts owed to group undertakings	1,766	5,104
Other creditors:		
Corporation Tax payable	-	397
Other taxation and social security	-	512
Accruals and deferred income	1,771	2,194
	<u>14,378</u>	<u>20,367</u>

Amounts owed to group undertakings are repayable on demand, incur no interest and carry no security.

14. PROVISIONS FOR LIABILITIES

	Deferred tax	Product warranties	Total
	£'000	£'000	£'000
Provisions for liabilities comprise:			
At 1 January 2015	1,067	598	1,665
Charged to consolidated income statement	344	49	393
Utilised in year	-	(102)	(102)
At 31 December 2015	<u>1,411</u>	<u>545</u>	<u>1,956</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 reporting date.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2015 (continued)**14. PROVISIONS FOR LIABILITIES (CONTINUED)**

	2015 £'000	2014 £'000
Deferred tax liability		
Accelerated capital allowances	(1,228)	(1,007)
Other timing differences	(133)	(60)
Total deferred tax	<u>(1,411)</u>	<u>(1,067)</u>
At start of year	(1,067)	
Deferred tax charge in the consolidated income statement for the year (note 9)	(133)	
At end of year	<u>(1,411)</u>	

Include the amount of net reversals of deferred tax assets and liabilities expected to occur during the year beginning after the reporting period together with an explanation for the expected reversals.

15. CALLED-UP SHARE CAPITAL AND OTHER RESERVES

	2015 £'000	2014 £'000
Authorised		
10,190,000 (2014: 10,190,000) ordinary shares of £1 each	<u>10,190</u>	<u>10,190</u>
Issued, allotted and fully paid		
10,190,000 (2014: 10,190,000) ordinary shares of £1 (2014: £1) each	<u>10,190</u>	<u>10,190</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of capital and the repayment of capital.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2015 (continued)

16. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2015 £'000	2014 £'000
Contracted for but not provided for	<u>4,814</u>	<u>8,559</u>

(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 not subject to rent reviews at specified periods.

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2015 £'000	2014 £'000
Payments due:		
Not later than one year	10	-
Later than one year and not later than five years	-	66
Later than five years	-	1,470
	<u>10</u>	<u>1,536</u>

17. 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 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 2011 and updated to 31 December 2015 for the purposes of section 28 "Employee Benefits" of FRS 102. 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

17. PENSION SCHEME (CONTINUED)

The amount recognised in the balance sheet is as follows :

	2015 £'000	2014 £'000
Defined benefit scheme asset	<u>4,844</u>	<u>220</u>

The amount recognised in the profit and loss account is as follows :

	2015 £'000	2014 £'000
Net interest expense	(90)	420
Administration costs	<u>680</u>	<u>480</u>
Total charge	<u>590</u>	<u>900</u>

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

	2015	2014
Rate of increase in salaries	n/a	n/a
Rate of increase of pensions in payment and deferment (LPI 5%)	2.85%	2.95%
Rate of increase of pensions in payment and deferment (LPI 2.5%)	1.90%	1.95%
Discount rate	3.70%	3.60%
Inflation assumption	3.05%	3.20%

	2015 Years	2014 Years
Mortality assumptions:		
Retiring today:		
Males	21.7	21.6
Females	24.1	24.0
Retiring in 20 years:		
Males	23.9	23.8
Females	26.5	26.3

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

17. PENSION SCHEME (CONTINUED)

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2015	128,130	(127,910)	220
Benefits paid	(5,190)	5,190	-
Employer contributions	4,800	-	4,800
Interest income / (expense)	4,620	(4,530)	90
Administration costs	(680)	-	(680)
Remeasurement gains / (losses)			
– Actuarial gains	-	5,000	5,000
– Return on plan assets excluding interest income	(3,450)	-	(3,450)
At 31 December 2015	<u>128,230</u>	<u>(122,250)</u>	<u>(5,980)</u>

The total cost recognised as an expense :

	2015 £'000	2014 £'000
Interest income / (cost)	<u>90</u>	<u>(420)</u>

The analysis of the fair value of the scheme assets at the reporting date were as follows:

	2015 £'000	2014 £'000
Equity instruments	55,049	52,470
Bonds	70,706	73,008
Other assets	2,475	2,652
	<u>128,230</u>	<u>128,130</u>

Other assets are represented by cash deposits and property.

The Company estimates that there will be contributions to the scheme of £2,695,000 during the accounting year 1 January 2015 to 31 December 2015:

The return on the plan assets was :

	2015 £'000	2014 £'000
Interest Income	4,620	4,860
Return on plan assets less interest income	(3,450)	13,190
Total Return on plan assets	<u>1,170</u>	<u>18,050</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2015 (continued)**

17. PENSION SCHEME (CONTINUED)

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 in 2015 of £1,336,000 (2014: £1,325,000) represents contributions payable to the scheme by the Group at rates specified in the rules of the plans. As at 31 December 2015, there was no amount (2014: £nil) due in respect of the current reporting year that had not been paid over to the scheme.

18. RELATED PARTY TRANSACTIONS

The Company has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same Company that are wholly owned. The Company discloses transactions with related parties which are not wholly owned with the same Company.

See note 6 for disclosure of the directors' remuneration and key management compensation.

Include the related party transactions for any pension contributions paid to a pension fund and for any remuneration for services provided by an employee. Also, any management fee paid between Company undertakings.

19. ULTIMATE PARENT COMPANY

At 31 December 2015, the ultimate parent undertaking and largest Company 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 parent company of the smallest Company to consolidate the Company's financial statements is BorgWarner Europe GmbH. Copies of its financial statements can be obtained from Hockenheimer Str. 165-167, 68775 Ketsch, Germany.

20. TRANSITION TO FRS 102

This is the first year that the Company and Company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

RECONCILIATIONS

In accordance with the requirements of FRS 102 a reconciliation of opening balances is provided as below:

There are no reconciling items within the P&L account for the transition to FRS102.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015 (continued)

20. TRANSITION TO FRS 102 (CONTINUED)

RECONCILIATION OF OTHER COMPREHENSIVE INCOME FOR THE YEAR **2015
£'000**

Other comprehensive income for the year as previously reported under UK GAAP	3,596
Remeasurements of net defined benefit obligation	4,844
Other comprehensive income for the year as reported under FRS 102	<u>8,440</u>

RECONCILIATION OF EQUITY	note	2015 £'000	2014 £'000
Total equity as previously reported under UK GAAP		58,485	54,889
Remeasurements of net defined benefit obligation	(a)	4,844	-
Total equity as reported under FRS 102		<u>63,329</u>	<u>54,889</u>

(a) Remeasurements of net defined benefit obligation

Prior to the introduction of FRS 102 no recognition was made in the event of an unrealised surplus after deferred tax of the surplus of scheme assets over liabilities.

Under previous UK GAAP the company recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 January 2015 or 31 December 2015. The effect of the change has been to reduce the credit to the profit and loss account in the year to 31 December 2015 by £90,000 and increase the credit in other comprehensive income by an equivalent amount.