

# **BORGWARNER LIMITED**

## **Annual Report and Financial Statements for the year ended 31 December 2020**



**BORGWARNER LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2020**

**CONTENTS**

**Page**

<b>Officers and professional advisers</b>	<b>1</b>
<b>Strategic report for the year ended 31 December 2020</b>	<b>2</b>
<b>Directors' report for the year ended 31 December 2020</b>	<b>4</b>
<b>Independent auditors' report to the members of BorgWarner Limited</b>	<b>7</b>
<b>Income statement for the year ended 31 December 2020</b>	<b>9</b>
<b>Statement of comprehensive income for the year ended 31 December 2020</b>	<b>10</b>
<b>Balance sheet as at 31 December 2020</b>	<b>11</b>
<b>Statement of changes in equity for the year ended 31 December 2020</b>	<b>12</b>
<b>Notes to the financial statements for the year ended 31 December 2020</b>	<b>13</b>

**BORGWARNER LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2020**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

B Koester  
A McMaken  
D Sidlow  
M Turke  
M Uhrig

**COMPANY SECRETARY**

A McMaken

**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  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

## **BORGWARNER LIMITED**

### **STRATEGIC REPORT**

**For the year ended 31 December 2020**

The directors present their strategic report on the Company for the financial year ended 31 December 2020.

#### **Principal activities**

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

#### **Review of the business**

The profit for the financial year is £5,831,000 (2019: £8,788,000). No dividend was paid in December 2020 (2019: £30,248,000).

As indicated in the income statement, the Company's sales have decreased by 22.1% (2019: increase 10.8%) compared to the financial year ended 31 December 2019, with the Company's profitability lower by £2,957,000 to £5,831,000. The decrease in turnover was due to COVID-19, affecting both sectors of the Market. The plant suffered a period of closure of 4 weeks for the CV sector and 8 weeks for the PC market. Additionally some contracts have come to a natural conclusion. The profitability has decreased due mainly to the COVID-19 period of closure.

The balance sheet shows that the Company's financial position of net assets at the year-end has improved, and includes cash balances of £2,004,000 (2019: £1,481,000). The improvement in the balance sheet is a result of increased current assets and a reduction in current liabilities. BorgWarner Limited has continued to fund some of the working capital of BorgWarner Gateshead Limited with an Intercompany interest bearing loan of £28,478,000. BorgWarner Limited has no investment in BorgWarner Gateshead Limited.

The Trustees of the defined benefit pension plan entered into a buy-in policy with Just Retirement Limited ("Just") on 26 April 2019. The policy covers all pensioner and dependant members as at 10 October 2018. The premium paid on 26 April 2019 was £81.4 million.

For the purpose of FRS102, the buy-in policy at 31 December 2020 has been valued by Willis Towers Watson using the FRS102 assumptions (with the exclusion of a reserve to allow for the future liabilities arising from GMP equalization, as these are not presently insured under the policy). This has resulted in a valuation of £74.1 million. The difference relative to the price paid for the policy has been recognised as an asset loss in "Other Comprehensive Income".

#### **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. Electrification, which has affected the Passenger Car Market, has not yet had an impact on the Commercial Vehicle Market.

"Brexit" will potentially provide a major challenge to the company with the anticipated decline in the value of Sterling, together with the potential custom tariffs, making the Company's imports more expensive. Several possible scenarios have been prepared, including a worst-case model. However, as the final position remains unknown it is not possible to quantify the risk further.

#### **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.

#### **S172 statement**

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and having due regard to the requirements of section 172 of the Companies Act 2006, in the decisions taken during the period ended 31 December 2020. In doing so, the directors have regard (amongst other matters) to the likely consequences of any decision in the long term; the interests of employees; the need to foster relationships with suppliers, customers and others; the impact of its operations on the community and the environment; the maintaining of a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

## BORGWARNER LIMITED

### STRATEGIC REPORT

For the year ended 31 December 2020

#### Key performance indicators ("KPIs")

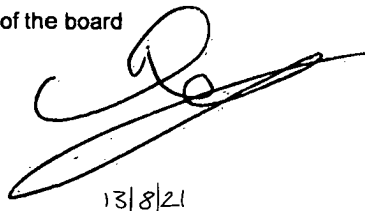
The Company's strategy is one of growth with improved profitability. The directors monitor progress against this strategy by reference to a number of KPIs.

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

	2020	2019	Definition, method of calculation and analysis
Growth in sales	(22.1)%	10.8%	Year on year sales (decline)/growth expressed as a percentage. The year on year decrease results from the period of closure due to COVID-19. The PC market was affected to a greater extent than the CV market.
Return on sales	7.8%	7.9%	Return on sales is the ratio of profit on ordinary activities before taxation to sales expressed as a percentage. Return on sales has slightly decreased despite the COVID-19 pandemic. Intercompany charges have reduced.
Working capital turns	4.2	4.2	Working capital turns is the ratio of sales to stocks plus trade debtors less trade creditors. There is no change in the ratio due to the reduction in debtors compared to sales. There were no unusual sales transactions towards the end of the year. The PC market recovered significantly after the COVID-19 shutdown.
Current Ratio	3.51	2.52	The current ratio is a financial ratio that compares a firm's current assets to its current liabilities. The ratio has increased for the BorgWarner Gateshead loan position, lower receivables and lower creditors.

On behalf of the board

D Sidlow  
Director



13/8/21

## **BORGWARNER LIMITED**

### **DIRECTORS' REPORT**

#### **For the year ended 31 December 2020**

The directors present their annual report and the audited financial statements of the Company for the financial year ended 31 December 2020.

#### **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 (2019: £nil).

#### **Dividends**

An interim dividend of £Nil was paid during the year (2019: £30,248,000). The directors do not recommend the payment of a final dividend (2019: £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 Augustaanlage 54-56, 68165 Mannheim, Germany.

The Company actively monitors the performance and financial strength of its customers and suppliers 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:

B Koester  
A McMaken  
D Sidlow  
M Turke  
M Uhrig  
T McGill – resigned 29/07/2020

#### **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 2020**

**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.

**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.

**Statement of directors' responsibilities**

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

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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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 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.

**BORGWARNER LIMITED**

**DIRECTORS' REPORT (CONTINUED)**  
**For the year ended 31 December 2020**

**Disclosure of information to auditors**

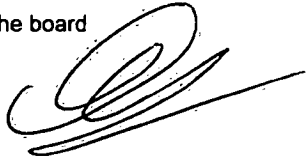
In the case of each director in office at the date the Directors' Report is approved:

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

**Independent auditors**

The independent 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



D Sidlow      13/8/21  
Director

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



# Independent auditors' report to the members of BorgWarner Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, BorgWarner Limited's financial statements:

- 
- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
  - have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover

## **BORGWARNER LIMITED**

the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

## **Responsibilities for the financial statements and the audit**

### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, Pensions legislation, UK tax legislation, health and safety legislation and employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting

inappropriate journal entries and management bias included within accounting judgements and estimates to manipulate financial reporting in order to present better financial results. Audit procedures performed included:

- evaluation of management's controls designed to prevent and detect fraudulent financial reporting;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- assessing management's significant judgements and estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorresponsibilities](http://www.frc.org.uk/auditorresponsibilities). This description forms part of our auditors' report.

#### **Use of this report**

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.

## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Dino Blackburn (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
13 August 2021

**BORGWARNER LIMITED****INCOME STATEMENT****For the year ended 31 December 2020**

	<b>Note</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Turnover	4	108,936	139,850
Cost of Sales		(87,385)	(105,343)
<b>GROSS PROFIT</b>		21,551	34,507
Selling costs		(1,480)	(2,211)
Distribution costs		(931)	(1,414)
Administrative expenses		(11,339)	(18,131)
Other Income	5	808	-
Impairment of fixed assets	9	(381)	-
Loss on sale of investment	10	-	(1,912)
<b>OPERATING PROFIT</b>	5	<u>8,228</u>	<u>10,839</u>
Interest receivable and similar income	7	248	248
<b>PROFIT BEFORE TAXATION</b>		<u>8,476</u>	<u>11,087</u>
Tax on profit	8	(2,645)	(2,299)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>5,831</u>	<u>8,788</u>

All results derive from continuing operations.

**BORGWARNER LIMITED****STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2020**

	Note	2020 £'000	2019 £'000
Profit for the financial year		5,831	8,788
Contributions received from BorgWarner Gateshead Limited in excess of service costs		1,299	1,100
Deferred tax on contributions received from BorgWarner Gateshead Limited in excess of service costs		(247)	(187)
Actuarial loss on defined benefit pension scheme	18	(1,850)	(3,570)
Deferred tax movement on net defined benefit asset	18	<u>352</u>	<u>607</u>
Other comprehensive expense for the year, net of tax		<u>(446)</u>	<u>(2,050)</u>
Total comprehensive income for the year		<u>5,385</u>	<u>6,738</u>

# BORGWARNER LIMITED

## BALANCE SHEET As at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	26,597	34,543
Investments	10	<u>3,577</u>	<u>3,577</u>
		30,174	38,120
<b>CURRENT ASSETS</b>			
Stocks	11	17,829	15,485
Debtors			
(amounts falling due after more than one year: £1,755k (2019: £2,212k))	12	59,385	55,014
Cash at bank and in hand		<u>2,004</u>	<u>1,481</u>
		79,218	71,980
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(22,598)</u>	<u>(28,618)</u>
<b>NET CURRENT ASSETS</b>		<u>56,620</u>	<u>43,362</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		86,794	81,482
<b>CREDITORS : amounts falling due after more than one year</b>	14	(12,930)	(12,930)
<b>PROVISIONS FOR LIABILITIES</b>	15	(2,812)	(3,165)
Pension liability	18	(910)	(630)
<b>NET ASSETS</b>		<u>70,142</u>	<u>64,757</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	10,190	10,190
Retained earnings		<u>59,952</u>	<u>54,567</u>
<b>TOTAL EQUITY</b>		<u>70,142</u>	<u>64,757</u>

The financial statements on pages 9 to 33 were approved by the Board of Directors on 13 August 2021 and were signed on its behalf by:



D Sidlow  
Director  
BorgWarner Limited  
Company Registration number 2346109

**BORGWARNER LIMITED****STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2020**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
Balance as at 1 January 2019	10,190	78,077	88,267
Profit for the financial year	-	8,788	8,788
Other comprehensive expense for the year	-	(2,050)	(2,050)
Total comprehensive income for the year	-	6,738	6,738
Interim dividend paid	-	(30,248)	(30,248)
Balance as at 31 December 2019	10,190	54,567	64,757
Balance as at 1 January 2020	10,190	54,567	64,757
Profit for the financial year	-	5,831	5,831
Other comprehensive expense for the year	-	(446)	(446)
Total comprehensive income for the year	-	5,385	5,385
Balance as at 31 December 2020	10,190	59,952	70,142

## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2020**

#### **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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Basis of preparation**

The 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. These are the first financial statements prepared following the adoption of the triennial review amendments to FRS 102, as a result of which certain disclosure requirements were amended, but no measurement differences arose in relation to assets and liabilities reported in the balance sheet, or items included within total comprehensive income.

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.

##### **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. In arriving at that position, the management have considered cash flows, including severe yet plausible downside scenarios and consider it appropriate for the company to be a going concern.

##### **Exemptions for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions. A qualifying entity is defined as a member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view, and that member is included in the consolidation. The Company is a qualifying entity as its results are consolidated into the consolidated financial statements of BorgWarner Inc. which are publicly available.

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

- i) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102;
- ii) from preparing a cash flow statement, on the basis that the consolidated statement of cash flows, included in BorgWarner Holdings Limited's financial statements, includes the company's cash flows.



## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2020 (continued)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **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.

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 income statement.

##### **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 or at the point of withdrawal from consignment stock.

##### **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 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 asset 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').

## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020 (continued)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Employee benefits (continued)**

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.

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 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 it occurs.

##### **iv) Share-based payments**

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

Equity-settled arrangements are measured at fair value (excluding the effect on non-market 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 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.

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2020 (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.

##### 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.

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.

## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020 (continued)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Impairment of non-financial assets (continued)**

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 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 income statement.

If an impairment loss is subsequently reversed, 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 income statement.

##### **Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to sell (net realisable value). 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 their 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 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 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.

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.

## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 December 2020 (continued)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **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 income statement. If there is a 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 the 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 group 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.

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, turnover and expenses. Actual results may differ from these estimates.

# BORGWARNER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020 (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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*

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 9 for the carrying amount of tangible assets and note 3 above for the useful economic lives for each class of asset.

### 4. TURNOVER

Turnover, which relates entirely to the supply of turbochargers, comprised:

	2020 £'000	2019 £'000
Sales to third parties	98,134	126,632
Sales to Group Companies	10,802	13,218
	<u>108,936</u>	<u>139,850</u>
Contributions to turnover by geographical destination were as follows:	2020 £'000	2019 £'000
United Kingdom	48,688	63,042
Rest of Europe	48,912	63,518
Rest of the World	11,336	13,290
	<u>108,936</u>	<u>139,850</u>

All turnover originates in the United Kingdom.

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020 (continued)****5. OPERATING PROFIT**

	Note	2020 £'000	2019 £'000
Operating profit is stated after charging/(crediting) :			
Coronavirus Job Retention Scheme income		(808)	-
Depreciation of tangible assets (owned)	9	2,854	3,702
Impairment of fixed assets	9	381	22
Gain of sale of fixed assets	9	(18)	-
Operating lease charges		154	152
Research and development costs		3,534	3,578
Net foreign currency losses		1,951	894
		<b>2020 £'000</b>	<b>2019 £'000</b>

**Auditors' remuneration:**

- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	74	120
- Fees payable for tax advisory services	99	64
	<b>173</b>	<b>184</b>

**6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	Note	2020 £'000	2019 £'000
Employee costs during the year amounted to:			
Wages and salaries		13,701	15,361
Social security costs		1,272	1,295
Other pension costs	18	3,035	2,911
		<b>18,008</b>	<b>19,567</b>

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

	2020 Number	2019 Number
Production and Engineering	308	310
Sales	9	9
Administration	65	65
	<b>382</b>	<b>384</b>

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020 (continued)****6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)**

	2020 £'000	2019 £'000
<b>Directors' remuneration</b>		
Aggregate remuneration	239	95
Company Pension Contribution to defined contribution scheme	17	7

Retirement benefits are accruing to one director under the Company's money purchase pension scheme (2019: one).

During the year, four (2019: five) 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 of BorgWarner Inc. that are not controlled by BorgWarner Limited.

One director (2019: none) exercised share options during the year, and shares were received or receivable in respect of qualifying services for one director (2019: none) under a long-term incentive scheme.

**7. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2020 £'000	2019 £'000
Intercompany loans	238	188
Net interest income on pension assets and liabilities	10	60
	248	248



# BORGWARNER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2020 (continued)

### 8. TAX ON PROFIT

#### (a) Tax expense included in profit or loss

	2020 £'000	2019 £'000
Current taxation charge is based on the profit for the financial year and comprises:		
United Kingdom corporation tax charge at 19% (2019: 19%)	2,613	2,611
Adjustments in respect of prior years	(139)	(164)
Total current taxation	2,474	2,447
Deferred taxation:		
- on differences between depreciation and capital allowances	(3)	(86)
- on other timing differences	174	(62)
Total deferred taxation	171	(148)
Total tax charge	2,645	2,299

#### (b) Tax (credit)/expense included in other comprehensive income

	2020 £'000	2019 £'000
Deferred tax		
- on actuarial gains and losses	(352)	(607)
- on contributions received from BorgWarner Gateshead Ltd in excess of service cost	247	187
Total tax credit included in other comprehensive income	(105)	(420)

#### (c) Reconciliation of tax charge

The tax assessed for the year is higher (2019: higher) than that resulting from applying the standard effective rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

# BORGWARNER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020 (continued)

### 8. TAX ON PROFIT (CONTINUED)

	2020 £'000	2019 £'000
Profit before taxation	8,476	11,087
Profit before tax multiplied by standard rate in the UK of 19% (2019: 19%).	1,610	2,107
Effects of:		
Expenses not deductible for tax purposes	764	148
Movement in short term timing differences	-	(86)
Other movements	410	294
Adjustments in respect of prior year	(139)	(164)
Total tax charge for the year	<u>2,645</u>	<u>2,299</u>

#### (d) Tax rate changes

The main rate of Corporation tax in the United Kingdom is 19%, effective from 1 April 2017. Finance (No2) Act 2015 included legislation to reduce the main rate to 17% from 1 April 2020 but Finance Act 2020 reversed this decision, and the main rate remained at 19% from 1 April 2020 with this being the rate at which the deferred tax balances have been measured. At the 2021 Spring Budget it was announced that the main rate of corporation tax is set to rise to 25% with effect from 1 April 2023. However, this rate was not substantively enacted at the balance sheet date and accordingly no account has been taken of this rate change in the deferred tax calculation.

### 9. TANGIBLE ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>			
At 1 January 2020	7,250	62,285	69,535
Additions	30	3,422	3,452
Disposals	-	(11,767)	(11,767)
At 31 December 2020	<u>7,280</u>	<u>53,940</u>	<u>61,220</u>
<b>Accumulated depreciation</b>			
At 1 January 2020	3,326	31,666	34,992
Charge for the year	327	2,527	2,854
Disposals	-	(3,604)	(3,604)
Impairment	-	381	381
At 31 December 2020	<u>3,653</u>	<u>30,970</u>	<u>34,623</u>
<b>Net book value</b>			
At 31 December 2020	<u>3,627</u>	<u>22,970</u>	<u>26,597</u>
At 31 December 2019	<u>3,924</u>	<u>30,619</u>	<u>34,543</u>

Freehold land amounting to £207,547 (2019: £207,547) has not been depreciated.

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020 (continued)****9. TANGIBLE ASSETS (CONTINUED)**

At 31 December 2020, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £3,432,000 (2019: £3,729,000) and £16,499,000 (2019: £23,767,000) respectively.

**10. INVESTMENTS**

	2020 £'000	2019 £'000
Cost	3,577	35,737
Disposal of Investment	-	(32,160)
Net book value	<u>3,577</u>	<u>3,577</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 Group undertakings:

	Country of incorporation registration	Registered office	Principal activity	Description of shares held	Proportion of shares held
Kysor (Europe) Limited	England and Wales	Roydsdale Way Euroway Industrial Estate Bradford West Yorkshire BD4 6SE	Dormant	£1 ordinary shares	100%
BorgWarner PDS (Indiana) Inc	USA	600 Corporation Dr Pendleton, In 46064 USA	Holding Company	Common Stock	0.1777%

On 9 December 2019 the Company disposed of its 10.47% holding in the shares of BorgWarner Europe Holdings PDS BV to BorgWarner Europe Holding S.à r.l. for cash consideration of €35,753,105, resulting in a loss on disposal of investments of £1,912,000.

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020 (continued)****11. STOCKS**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials and consumables	9,386	7,423
Work-in-progress	7,332	6,480
Finished goods and goods for resale	1,111	1,582
	<u>17,829</u>	<u>15,485</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**

This comprises:	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Amounts falling due within one year	57,630	52,802
Amounts falling due after more than one year	1,755	2,212
	<u>59,385</u>	<u>55,014</u>

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	22,742	33,796
Amounts owed by group undertakings	33,556	17,863
Value added tax	358	-
Corporation tax receivable	-	643
Prepayments	974	500
	<u>57,630</u>	<u>52,802</u>

Amounts owed by group undertakings are repayable on demand, incur no interest, with the exception of the BorgWarner Gateshead Limited loan of £28,478,000 (2019: £10,806,000) and carry no security. Interest was charged on the loan with BorgWarner Gateshead Limited at 2.02% during the financial year.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due after more than one year</b>		
Other debtors	1,755	2,212

These relate to business incentives paid on behalf of other Group companies receivable as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Later than one year and not later than five years	966	1,106
Later than five years	789	1,106
	<u>1,755</u>	<u>2,212</u>

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020 (continued)****13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	14,442	15,995
Amounts owed to group undertakings	2,907	2,141
UK corporation tax payable	1,065	-
Other taxation and social security	622	504
Accruals and deferred income	<u>3,562</u>	<u>9,978</u>
	<b>22,598</b>	<b>28,618</b>

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

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

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to Group undertakings	<u>12,930</u>	<u>12,930</u>

**15. PROVISIONS FOR LIABILITIES**

	<b>Deferred tax</b>	<b>Product warranties</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Provisions for liabilities comprise:			
At 1 January 2020	1,189	1,976	3,165
Charged to income statement	488	255	743
Credited to other comprehensive income	(105)	-	(105)
Utilised in year	-	(991)	(991)
At 31 December 2020	<u>1,572</u>	<u>1,240</u>	<u>2,812</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.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>The deferred tax liability is made up as follows:</b>		
Accelerated capital allowances	1,317	1,319
Other timing differences	<u>255</u>	<u>(130)</u>
Total deferred tax	<b>1,572</b>	<b>1,189</b>

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020 (continued)****16. CALLED UP SHARE CAPITAL**

	2020 £'000	2019 £'000
<b>Authorised</b>		
10,190,000 (2019: same) ordinary shares of £1 each (2019: same)	<u>10,190</u>	<u>10,190</u>
<b>Issued, allotted and fully paid</b>		
10,190,000 (2019: same) ordinary shares of £1 each (2019: same)	<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.

**17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS****(a) Capital commitments at the end of the year were:**

	2020 £'000	2019 £'000
Contracted for but not provided for	<u>4,714</u>	<u>5,125</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:

	2020 £'000	2019 £'000
<b>Payments due:</b>		
Not later than one year	132	150
Later than one year and not later than five years	212	349
Later than five years	<u>-</u>	<u>-</u>
	<u>344</u>	<u>499</u>

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2020 (continued)

#### 18. PENSION LIABILITY

The Company 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. In addition, during 2018 BorgWarner Limited became the sponsoring party of the Sevcon Limited (now known as BorgWarner Gateshead Limited) pension fund. The two pension plans are shown separately from April 1<sup>st</sup> 2018 within the BorgWarner Limited accounts. The funds of the plans are administered by trustees and are separate from the Company. The pension asset / (liability) is all held within BorgWarner Limited and relates to schemes that are closed to future accruals. The asset / (liability) is accounted for in BorgWarner Limited financial statements and then consolidated into BorgWarner Holdings Limited financial statements.

The Trustees of the defined benefit pension plan entered into a buy-in policy with Just Retirement Limited ("Just") on 26 April 2019. The policy covers all pensioner and dependant members as at 10 October 2018. The premium paid on 26 April 2019 was £81.4 million.

---

For the purpose of FRS102, the buy-in policy at 31 December 2020 has been valued by management with the support of its actuary, Willis Towers Watson, using the FRS102 assumptions (with the exclusion of a reserve to allow for the future liabilities arising from GMP equalization, as these are not presently insured under the policy). This has resulted in a valuation of £74.1 million. The difference relative to the price paid for the policy has been recognised as an asset loss in the "Other Comprehensive Income".

---

#### 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 2020 for both BorgWarner Limited and Sevcon Limited (now known as BorgWarner Gateshead Limited) and updated to 31 December 2020 for the purposes of section 28 "Employee Benefits" of FRS 102. The present values 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 amount recognised in the balance sheet is as follows:

	2020 £000's	2020 £000's	2020 £000's
	Sevcon	BorgWarner	Total
Net Defined benefit scheme (liability)/asset as shown below	(10,740)	9,830	(910)
	2019 £000's	2019 £000's	2019 £000's
	Sevcon	BorgWarner	Total
Net Defined benefit scheme (liability)/asset as shown below	(11,530)	10,900	(630)

**BORGWARNER LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020 (continued)**

**18. PENSION LIABILITY (continued)**

The amounts recognised in the comprehensive profit and loss are as follows:

	<b>2018</b> <b>£000's</b>
	<b>BorgWarner</b>
Return on plan assets greater than discount rate	4,040
Remeasurement of the DBO (Loss)/Gain	(7,640)
Deferred Tax movement on net defined benefit asset	670
	<u>(2,930)</u>

The amounts recognised in the statement of other comprehensive income are as follows:

	<b>2020</b> <b>£000's</b>	<b>2020</b> <b>£000's</b>	<b>2020</b> <b>£000's</b>
	<b>Sevcon</b>	<b>BorgWarner</b>	<b>Total</b>
Remeasurement of the DBO gain	1,750	9,620	11,370
Return on plan assets less interest income	(2,040)	(11,180)	(13,220)
Contributions on behalf of Sevcon	1,299	-	1,299
	<u>1,009</u>	<u>(1,560)</u>	<u>(551)</u>
Deferred tax movement	(192)	297	105
	<u>817</u>	<u>(1,263)</u>	<u>(446)</u>
	<b>2019</b> <b>£000's</b>	<b>2019</b> <b>£000's</b>	<b>2019</b> <b>£000's</b>
	<b>Sevcon</b>	<b>BorgWarner</b>	<b>Total</b>
Remeasurement of the DBO (loss)/gain	(3,050)	(7,830)	(10,880)
Return on plan assets less interest income	1,610	5,700	7,310
	<u>(1,440)</u>	<u>(2,130)</u>	<u>(3,570)</u>
Deferred tax movement	245	362	607
	<u>(1,195)</u>	<u>(1,768)</u>	<u>(2,963)</u>

The amounts recognised in the income statement are as follows:

**2020                      2020                      2020**



**BORGWARNER LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020 (continued)**

	£000's	£000's	£000's
	Sevcon	BorgWarner	Total
Net interest expense/(income)	210	(220)	(10)
Administration costs	10	1,260	1,270
Total charge	220	1,040	1,260

**18. PENSION LIABILITY (continued)**

	2019	2019	2019
	£000's	£000's	£000's
	Sevcon	BorgWarner	Total
Net interest expense/(income)	290	(350)	(60)
Administration costs	-	1,410	1,410
Total charge	290	1,060	1,350

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

	2020	2020	2019	2019
	Sevcon	BorgWarner	Sevcon	BorgWarner
Rate of increase in salaries	n/a	n/a	n/a	n/a
Rate of increase of pensions in payment and deferment (LPI 5%)	3.55%	2.85%	3.65%	2.85%
Rate of increase of pensions in payment and deferment (LPI 2.5%)	2.00%	2.10%	1.85%	1.90%
Discount rate	1.35%	1.25%	1.90%	1.85%
Inflation assumption	2.90%	2.95%	2.95%	3.00%
	2020	2020	2019	2019
	Sevcon	BorgWarner	Sevcon	BorgWarner
Mortality assumptions:				
Retiring today:				
Males	20.6	20.2	21.1	20.5
Females	22.3	23.0	23.0	22.9
Retiring in 20 years:				

**BORGWARNER LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020 (continued)**

Males	22.0	21.6	22.4	21.9
Females	23.9	24.6	24.5	24.4

**18. PENSION LIABILITY (continued)**

Reconciliation of scheme assets and liabilities	Sevcon		BorgWarner		Total
	Assets	Liabilities	Assets	Liabilities	
	£000's		£000's		£000's
At 1 January 2020	17,150	(28,680)	151,200	(140,300)	(630)
Benefits paid	(1,260)	1,260	(6,870)	6,870	-
Employer contributions	1,300	-	1,530	-	2,830
Interest income/(expense)	330	(540)	2,770	(2,550)	10
Administration costs	-	(10)	(1,120)	(140)	(1,270)
Remeasurement gains					
- Return on plan assets excluding interest income	1,750	-	9,620	-	11,370
- Actuarial losses	-	(2,040)	-	(11,180)	(13,220)
At 31 December 2020	19,270	(30,010)	157,130	(147,300)	(910)

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

	2020	2020	2020
	£000's	£000's	£000's
	Sevcon	BorgWarner	Total
Equity instruments	-	6,238	6,238
Bonds	-	29,258	29,258
Buy-in policy	-	74,103	74,103
Other assets	19,270	1,256	20,526
Diversified growth fund	-	46,275	46,275

**BORGWARNER LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020 (continued)**

	19,270	157,130	176,400
	2019	2019	2019
	£000's	£000's	£000's
	Sevcon	BorgWarner	Total
Equity instruments	-	27,842	27,842
Bonds	-	49,611	49,611
Buy-in policy	-	72,770	72,770
Other assets	17,150	977	18,127
	17,150	151,200	168,350

Other assets are represented by cash deposits and a fiduciary platform.

**18. PENSION LIABILITY (continued)**

The Company estimates that there will be contributions to the scheme of £1,530,000 during the accounting year 1 January to 31 December 2021 for the BorgWarner plan and £1,200,000 for the same period for the Sevcon plan.

The return on the plan assets was:

	2020	2020	2020
	£000's	£000's	£000's
	Sevcon	BorgWarner	Total
Interest income	330	2,770	3,100
Return on plan assets less interest income	1,750	9,620	11,370
Total return on plan assets	2,080	12,390	14,470
	2019	2019	2019
	£000's	£000's	£000's
	Sevcon	BorgWarner	Total
Interest income	420	3,910	4,330
Return on plan assets less interest income	1,610	5,700	7,310
Total return on plan assets	2,030	9,610	11,640

**Defined contribution scheme**

## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020 (continued)**

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 Company in funds under the control of trustees.

The total cost charged to income in 2020 amounted to £1,505,000 (2019: £1,501,000) and represents contributions payable to the scheme by the Company at rates specified in the rules of the plans. As at 31 December 2020, there was no amount (2019: £nil) due in respect of the current reporting year that had not been paid over to the scheme.

#### **19. RELATED PARTY TRANSACTIONS**

The Company has taken exemption as provided in FRS 102 and does not disclose transactions with members of the same group that are wholly owned.

See note 6 for disclosure of the directors' remuneration.

#### **20. ULTIMATE PARENT COMPANY**

At 31 December 2020, 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's immediate parent company is BorgWarner Holdings Limited. The smallest group for which consolidated accounts are prepared is BorgWarner Europe GmbH.