Company Registration No. 2346109

Deloitte & Touche

BORGWARNER LIMITED

(formerly Borg-Warner Automotive Turbo Systems Limited)

Report and Financial Statements

31 December 2001

Deloitte & Touche
Leeds

BORGWARNER LIMITED
(formerly Borg-Warner Automotive Turbo Systems Limited)

Deloitte & Touche

REPORT AND FINANCIAL STATEMENTS 2001

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Deloitte & Touche

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R J Trenda
C P Morgan

SECRETARY

M R Taylor

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

BANKERS

National Westminster Bank Plc
5th Floor
City Square House
7 Wellington Street
Leeds
LS1 4DC

Barclays Bank Plc
P O Box 190
3rd Floor
6 East Parade
Leeds
LS1 2UX

SOLICITORS

Pinsent Curtis Biddle
1 Park Row
Leeds
LS1 5AB

AUDITORS

Deloitte & Touche
Leeds

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

ACTIVITIES

The principal activity of the company is the manufacture and sale of turbochargers, cooling system products and transfer cases and components.

On 11 November 2002, the company changed its name from Borg-Warner Automotive Turbo Systems Limited to Borgwarner Limited.

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £2,553,000 (2000: £2,625,000). No dividend is proposed (2000 : 83.4 pence per share), leaving a profit of £2,553,000 to be transferred to reserves (2000 : loss of £5,875,000 withdrawn from reserves).

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

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

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

D W Krol (resigned 28 February 2002)
R J Trenda
C P Morgan

The company's ultimate parent is a company incorporated outside Great Britain. As a result, details of the directors' interests are not required to be given in accordance with Statutory Instrument No. 802 of the Companies Act 1985.

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

CHARITABLE DONATIONS

The company made £3,436 (2000: £2,371) donations to charity in 2001.

EMPLOYEE CONSULTATION

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

DISABLED EMPLOYEES

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

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company, is to be proposed at the forthcoming Annual General Meeting.

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

P Morgan 31.1.03

C P Morgan

2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. 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.

Deloitte
& Touche

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED (formerly Borg-Warner Automotive Turbo Systems Limited)

We have audited the financial statements of Borgwarner Limited (formerly Borg Warner Automotive Turbo Systems Ltd) for the year ended 31 December 2001 which comprise the profit and loss account, the note of historical cost profits and losses, the balance sheet, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and
Registered Auditors
Leeds
31 January 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

	Note	2001 £'000	2000 £'000
TURNOVER – continuing operations	2	67,019	69,876
Cost of sales		(59,382)	(59,315)
Gross profit		7,637	10,561
Other operating expenses (including amortisation of negative goodwill of £1,338,000 (2001: £900,000))	3	(4,346)	(6,067)
OPERATING PROFIT – continuing operations	4	3,291	4,494
Investment income	5	479	301
Interest payable and similar charges	6	(567)	(839)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,203	3,956
Tax on profit on ordinary activities	8	(650)	(1,331)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		2,553	2,625
Equity dividends	9	-	(8,500)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	19	2,553	(5,875)

There are no recognised gains and losses in the current or preceding financial year other than the profit for the year. Accordingly, no statement of total recognised gains and losses is provided.

NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 31 December 2001

	2001 £'000	2000 £'000
Profit on ordinary activities before taxation	3,203	3,956
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	485	485
Historical cost profit on ordinary activities before taxation	3,688	4,441
Historical cost profit for the year after taxation	3,038	3,110

BALANCE SHEET
31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Intangible assets – negative goodwill	10	(4,740)	(6,078)
Tangible assets	11	18,402	20,652
Investments	12	3,327	3,327
		16,989	17,901
CURRENT ASSETS			
Stocks	13	7,689	8,526
Debtors	14	31,195	31,136
Cash at bank and in hand		2,222	8
		41,106	39,670
CREDITORS: amounts falling due within one year	15	(12,817)	(15,279)
NET CURRENT ASSETS		28,289	24,391
TOTAL ASSETS LESS CURRENT LIABILITIES		45,278	42,292
CREDITORS: amounts falling due after more than one year	16	(19,429)	(18,086)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(2,189)	(3,099)
NET ASSETS		23,660	21,107
CAPITAL AND RESERVES			
Called up share capital	18	10,190	10,190
Revaluation reserve	19	3,917	4,402
Profit and loss account	19	9,553	6,515
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	23,660	21,107

These financial statements were approved by the Board of Directors on 31 – 1 – 2003

Signed on behalf of the Board of Directors

P Morgan

C P Morgan

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below.

Accounting convention

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

Cash flow statement

A cash flow statement has not been prepared as the company is a wholly owned subsidiary undertaking of Borgwarner Holdings Limited (formerly BWA Turbo Systems Holdings Limited), a company registered in England and Wales. This company's ultimate parent, BorgWarner Inc., published consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group. The accounts of BorgWarner Inc. are available from 200 South Michigan Avenue, Chicago, Illinois 60604, USA.

Group accounts

The directors have not presented consolidated accounts because the company is a wholly owned subsidiary undertaking of Borgwanrer Holdings Limited, a company registered in England and Wales, which prepares consolidated accounts. Further information relating to the company's subsidiary undertakings is given in note 12 to the accounts. These financial statements therefore present information about the company and not its group.

Acquisitions

On the acquisition of a business, fair values are attributed to the net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and, following the implementation of FRS 10, is capitalised in the balance sheet in the year of acquisition. Previously purchased goodwill was written off directly to reserves as noted below.

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

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

Goodwill and Intangible fixed assets

For acquisitions of a business following the implementation of FRS 10 "Goodwill and Intangible Assets", purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years with a full year's charge for amortisation in the year of acquisition. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period.

Goodwill which arose on the acquisition of a business in prior periods and was written off to the profit and loss reserve as a matter of accounting policy remains eliminated in that reserve and will be charged or credited in the profit and loss account as appropriate on the subsequent disposal of the business to which it related.

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

Turnover

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

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

1. ACCOUNTING POLICIES (continued)

Foreign currency

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

Pension costs

Pension costs are charged against profits in a systematic manner over the service lives of the employees in the scheme.

Total pension costs comprise the regular pension costs, that is the consistent ongoing cost, calculated as a level percentage of the current and expected future pensionable payroll.

Any difference between amounts charged to the profit and loss account and the amounts payable to the scheme for the year is shown as a separately identified liability or asset in the balance sheet.

Deferred taxation

Deferred taxation has been calculated under the liability method and is provided on timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will not reverse.

Tangible fixed assets

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

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

There is no depreciation on freehold land

Freehold buildings	25 years
Plant and machinery	3 to 10 years

Leases

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

Stocks

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

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

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

Fixed asset investments

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

Research and development

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

2. SEGMENTAL INFORMATION

The analysis of turnover by geographical areas has not been provided as in the opinion of the directors such disclosure would be seriously prejudicial to the business.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

3. OTHER OPERATING EXPENSES

	2001 £'000	2000 £'000
Selling and marketing costs	1,441	1,667
Research and development costs	1,398	1,398
Administrative expenses	3,283	3,902
Amortisation of negative goodwill	(1,338)	(900)
	4,784	6,067

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

4. OPERATING PROFIT

	2001 £'000	2000 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned assets	4,214	3,876
- held under finance leases	14	14
Operating lease rentals		
- plant and machinery	118	129
- other	120	198
Auditors' remuneration		
- audit	48	48
- other	20	20
Loss/(profit) on disposal of fixed assets	32	(167)
Redundancy payments	517	1,526
Amortisation of negative goodwill	(1,338)	(900)

5. INVESTMENT INCOME

	2001 £'000	2000 £'000
Interest receivable and similar income	479	301

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £'000	2000 £'000
On bank loans and overdrafts	17	79
Finance lease interest	7	7
On intercompany loans	543	753
	567	839

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001 £'000	2000 £'000
Employee costs during the period amounted to:		
Wages and salaries	14,061	14,782
Social security costs	2,034	1,803
Other pension costs	2,298	1,989
	18,393	18,574

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

	2001 No.	2000 No.
Production and engineering	591	670
Sales	20	20
Administration	75	62
	686	752

Directors' remuneration	2001 £'000	2000 £'000
Emoluments	96	138

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director.

	2001 £'000	2000 £'000
Emoluments	96	54

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2001 was £21,752 (2000: £16,395).

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

	2001 No	2000 No
Defined benefit scheme	1	1

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and comprises:	2001 £'000	2000 £'000
United Kingdom Corporation tax at 30% (2000: 30%)	1,397	1,830
Deferred taxation	(668)	(499)
Adjustment in respect of prior years	729	1,331
Corporation tax	(271)	-
Deferred tax	192	-
	650	1,331

The tax charge is lower than anticipated primarily due to non-taxable negative goodwill amortisation credited to the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

9. DIVIDENDS

	2001 £'000	2000 £'000
Nil dividend paid (2000: 83.4 pence per share)	-	8,500

10. INTANGIBLE FIXED ASSETS

	Negative Goodwill £'000
Cost	
At 1 January 2001 and 31 December 2001	7,203
Accumulated depreciation	
At 1 January 2001	1,125
Credit for the year	1,338
At 31 December 2001	2,463
Net book value	
At 31 December 2001	4,740
At 31 December 2000	6,078

Negative goodwill of £7,203,000 was brought into the balance sheet in the year ended 31 December 1999 to reflect the purchase of the Margam division. The negative goodwill is being amortised over an 8 year period. An additional write back of £438,000 has been recognised in the current period profit and loss account due to a write down in the current year of some of the fixed assets acquired.

11. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
Cost or valuation			
At 1 January 2001	3,080	28,936	32,016
Additions	98	2,388	2,486
Transfers to Group companies		47	47
Disposals	(34)	(1,687)	(1,721)
At 31 December 2001	3,144	29,684	32,828
Accumulated depreciation			
At 1 January 2001	494	10,870	11,364
Charge for the year	182	4,046	4,228
Disposals	(20)	(1,146)	(1,166)
At 31 December 2001	656	13,770	14,426
Net book value			
At 31 December 2001	2,488	15,914	18,402
At 31 December 2000	2,586	18,066	20,652

Freehold land amounting to £207,547 (2000: £207,547) has not been depreciated. Plant and machinery includes fixed assets held under finance leases with a net book value of £48,608 (2000: £55,608).

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

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

12. FIXED ASSET INVESTMENTS

Subsidiary undertakings	2001 £'000	2000 £'000
Cost	3,327	3,327

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

	Country of Incorporation /registration	Principal activity	Description of shares held	Proportion of shares held
Kysor (Europe) Limited	England and Wales	Manufacture and sale of fans, heating, ventilation and air conditioning equipment	£1 ordinary shares	100%
Kysor BV	Belgium	Dormant	£1 ordinary shares	100%
Schwitzer Pension Trustee Limited	England and Wales	Trustee of the group pension scheme	£1 ordinary shares	100%
Dynair Limited	England and Wales	Dormant	£1 ordinary shares	100%*

* shares held indirectly through Kysor (Europe) Limited.

13. STOCKS

	2001 £'000	2000 £'000
Raw materials and consumables	2,469	1,952
Work-in-progress	1,368	458
Finished goods and goods for resale	3,852	6,116
	7,689	8,526

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

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	2000 £'000
Trade debtors	11,537	12,179
Amounts owed by group undertakings	17,568	17,515
VAT	387	780
Prepayments and accrued income	1,703	637
Corporation tax recoverable	-	25
	31,195	31,136

£12,474,000 (2000: £12,474,000) of amounts owed by group undertakings is due in more than one year.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	2000 £'000
Overdraft	1,165	2,229
Obligations under finance leases and hire purchase contracts	1	19
Trade creditors	7,317	6,785
Amounts owed to other group companies	835	1,460
Other creditors:		
UK corporation tax payable	1,809	2,426
Social security and PAYE	413	414
Accruals and deferred income	1,277	1,946
	12,817	15,279

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

	2001 £'000	2000 £'000
Owed to group companies	19,429	18,086

Creditors falling due after more than one year are all repayable within 2-5 years except for the group loan with Borg Warner Inc. which is repayable on 1 October 2009. Interest is calculated on the group loan annually, at a rate of 6.65%. All outstanding loans become due and payable on the termination date of the agreement.

17. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:	Deferred taxation £'000	Product warranties £'000	Total £'000
At 1 January 2001	1,915	1,184	3,099
Charged/(credit) to profit and loss account	(668)	233	(435)
Adjustment in respect of prior years	192	-	192
Utilised in year	-	(667)	(667)
At 31 December 2001	1,439	750	2,189

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

	Provided 2001 £'000	Not provided 2001 £'000	Provided 2000 £'000	Not provided 2000 £'000
Capital allowances in advance of depreciation	1,952	-	2,310	-
Other timing differences	(513)	-	(395)	-
	1,439	-	1,915	-

18. CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised		
20,000,000 ordinary shares of £1 each	20,000	20,000
Called up, allotted and fully paid		
10,190,002 ordinary shares of £1 each	10,190	10,190

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

19. RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2001	4,402	6,515
Retained profit for the year	-	2,553
Transfer of amount equivalent to additional depreciation on revalued assets	(485)	485
At 31 December 2001	3,917	9,553

20. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2001 £'000	2000 £'000
Profit for the financial year	2,553	2,625
Dividends	-	(8,500)
Net addition/(withdrawals) to shareholders' funds	2,553	(5,875)
Opening equity shareholders' funds	21,107	26,982
Closing equity shareholders' funds	23,660	21,107

21. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2001 £'000	2000 £'000
Contracted for but not provided for	-	509

(b) **Contingent liabilities:**

The company has unsecured guarantees to third parties outstanding amounting to £250,000 (2000: £250,000).

(c) **Lease commitments:**

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

	2001		2000	
Operating leases which expire:	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Within one year	-	41	-	48
Within 2-5 years	156	-	-	96
After 5 years	-	-	120	-
	156	41	120	144

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

22. PENSION SCHEME

The company participates in two defined benefits plans for its employees. Both plans are fully funded. Pension costs are assessed with the advice of a qualified actuary using the projected unit funding method.

The most recent actuarial valuation of the first scheme was at 1 May 1998. The market value of the Plan's assets at the date of the valuation was £6.9 million. The current level of funding is 12.7% of pensionable salaries. The valuation showed a surplus of £31,000 at the date of the valuation. The surplus on the scheme should be eliminated as a result of lower contributions.

The significant actuarial assumptions underlying the valuation of the first scheme are as follows: assumed rate of price inflation of 3%; assumed rate of interest 6%; assumed rate of future salary increases 4%; assumed rate of post retirement pension increased 3%; assumed rate of return on scheme investments 6%.

The most recent actuarial valuation of the second scheme was at 5 April 1999. The market value of the Plan's assets at the date of the valuation was £49.21 million. The value of the assets of the scheme is 102% of the liabilities of the scheme and as such no contributions are required. The valuation showed a surplus of £1.16 million at the date of the valuation. The surplus on the scheme should be eliminated as a result of the nil contributions.

The significant actuarial assumptions underlying the valuation of the second scheme are as follows: assumed rate of price inflation 2.5%; assumed rate of interest 4.5%; assumed rate of future salary increases 4%; assumed rate of post retirement pension increased 2.5%; assumed rate of return on scheme investments 5%.

The two plans were merged with effect from 5 April 2000, at which date an interim valuation of the merged Plan's financial position was carried out by independent actuaries, using the projected unit method. A formal valuation of the merged Plan is due to be carried out as at 5 April 2002.

FRS 17 'Retirement Benefits'

In November 2000 the Accounting Standards Board issued Financial Reporting Standard No. 17 'Retirement Benefits' replacing SSAP 24 'Accounting for Pension Costs'. FRS 17 is fully effective for periods ending on or after 22 June 2003, though certain disclosures are required in the transition period, for periods ending on or after 22 June 2001. These further disclosures are included below.

The interim actuarial valuation at 5 April 2000 was updated to 31 December 2001 by a qualified actuary. The principal assumptions used by the actuary as at 31 December 2001 are shown below:

Rate of increase in salaries	4.0%
Rate of increase of pensions in payment and deferment	2.5%
Discount rate	6.0%
Inflation assumption	2.5%

The assets in the Plan and the expected rates of return are shown below:

	%	**2001 £'000**
Equities	7.7%	31,320
Bonds	4.9%	23,770
Cash and other assets	4.5%	840
		55,930
Actuarial value of liabilities		(56,880)
Deficit in the Scheme		(950)
Related deferred tax asset		285
		(665)

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

22. PENSION SCHEME (continued)

Had the company adopted FRS 17 early, profit and loss reserves would have been stated as follows:

	2001 £'000
Profit and loss reserve in the financial statements as at 31 December 2001	9,115
Deficit net of related deferred tax asset	(665)
Profit and loss reserve as adjusted	8,450

23. ULTIMATE PARENT COMPANY

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

At 31 December 2001 the ultimate parent (and controlling) undertaking was Borg-Warner Inc. which is incorporated in the State of Delaware, USA. Copies of its financial statements can be obtained from 200 South Michigan Avenue, Chicago, Illinois 60604, USA.

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