Company Registration No. 2346109

BORGWARNER LIMITED

Report and Financial Statements

31 December 2002

Deloitte & Touche LLP
Leeds

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

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BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R J Trenda
G F Carter
C P Morgan

SECRETARY

M R Taylor

REGISTERED OFFICE

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Bradford
BD4 6SE

BANKERS

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City Square House
7 Wellington Street
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Barclays Bank Plc
P O Box 190
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Leeds
LS1 2UX

SOLICITORS

Pinsent Curtis Biddle
1 Park Row
Leeds
LS1 5AB

AUDITORS

Deloitte & Touche LLP
Leeds

BORGWARNER LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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 £4,831,000 (2001: £2,553,000). An interim dividend of £6,012,000 (2001: Nil) has been paid and a final dividend of £11,922,000 (2001 : Nil) is proposed, leaving a loss of £13,103,000 to be withdrawn from reserves (2001: profit of £2,553,000 transferred to reserves).

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider the performance of the company to be satisfactory and are optimistic about its 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	
G F Carter	(appointed 14 June 2002)

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 £45,000 (2001: £3,436) donations to charity in 2002.

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

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003. Accordingly, the accounts have been signed in the name of Deloitte & Touche LLP, and a resolution for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

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

P. Morgan

C P Morgan
30 January 2004

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

We have audited the financial statements of BorgWarner Limited for the year ended 31 December 2002 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche LLP

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
Leeds
30 January 2004

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
TURNOVER – continuing operations	2	95,840	67,019
Cost of sales		(83,414)	(59,382)
Gross profit		12,426	7,637
Other operating expenses, net (including amortisation of negative goodwill of £824,000 (2001: £1,338,000))	3	(5,313)	(4,346)
OPERATING PROFIT – continuing operations	4	7,113	3,291
Investment income	5	-	479
Interest payable and similar charges	6	(287)	(567)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,826	3,203
Tax on profit on ordinary activities	8	(1,995)	(650)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		4,831	2,553
Equity dividends	9	(17,934)	-
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	19	(13,103)	2,553

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 2002

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation	6,826	3,203
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	7,311	3,688
Historical cost profit for the year after taxation	5,316	3,038

BORGWARNER LIMITED

BALANCE SHEET
31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Intangible assets – negative goodwill	10	(3,916)	(4,740)
Tangible assets	11	17,305	18,402
Investments	12	3,327	3,327
		16,716	16,989
CURRENT ASSETS			
Stocks	13	11,491	7,689
Debtors	14	33,142	31,195
Cash at bank and in hand		63	2,222
		44,696	41,106
CREDITORS: amounts falling due within one year	15	(28,680)	(12,817)
NET CURRENT ASSETS		16,016	28,289
TOTAL ASSETS LESS CURRENT LIABILITIES		32,732	45,278
CREDITORS: amounts falling due after more than one year	16	(18,600)	(19,429)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(3,575)	(2,189)
NET ASSETS		10,557	23,660
CAPITAL AND RESERVES			
Called up share capital	18	10,190	10,190
Revaluation reserve	19	3,432	3,917
Profit and loss account	19	(3,065)	9,553
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	10,557	23,660

These financial statements were approved by the Board of Directors on 30 January 2004.

Signed on behalf of the Board of Directors

P. Morgan

C P Morgan

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

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, with the exception of the accounting policy in relation to deferred taxation, 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 BorgWarner Holdings Limited, a company registered in England and Wales, which prepares consolidated accounts. Further information relating to the company's subsidiary undertakings is given in note 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 separable net assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the balance sheet in the year of acquisition.

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

Goodwill and intangible fixed assets

For acquisitions of a business purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful economic 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 economic life of goodwill since it is difficult to make projections exceeding this period.

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 over which to amortise goodwill.

Turnover

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

Foreign currency

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

Pension costs

The expected cost of providing pensions under the defined benefit scheme, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account 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

In accordance with FRS 19, Deferred Taxation, which has been adopted during the period, full provision is made on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

The adoption of FRS 19 has not had a material impact on the comparatives.

Tangible fixed assets

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

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

There is no depreciation on freehold land

Freehold buildings	25 years
Plant and machinery	3 to 10 years

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

2. SEGMENTAL INFORMATION

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

	2002 £'000	2001 £'000
Sales to third parties	85,861	59,207
Sales to fellow group undertakings	9,979	7,812
	95,840	67,019

Contributions to turnover by geographical area were as follows:

	2002 £'000	2001 £'000
United Kingdom	6,591	18,246
Rest of Europe	40,086	38,468
Rest of the World	49,163	10,305
	95,840	67,019

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

3. OTHER OPERATING EXPENSES, NET

	2002 £'000	2001 £'000
Selling and marketing costs	1,351	1,441
Administrative expenses:-		
General	3,860	2,845
Research and development costs	926	1,398
Amortisation of negative goodwill	(824)	(1,338)
Total administrative expenses	3,962	2,905
	5,313	4,346

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

4. OPERATING PROFIT

	2002 £'000	2001 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned assets	2,946	4,214
- held under finance leases	-	14
Operating lease rentals		
- plant and machinery	179	118
- other	120	120
Auditors' remuneration		
- audit	81	48
- other	57	20
(Profit)/loss on disposal of fixed assets	(77)	32
Redundancy payments	110	517
Amortisation of negative goodwill	(824)	(1,338)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

5. INVESTMENT INCOME

	2002 £'000	2001 £'000
Interest receivable and similar income	-	479

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
On bank loans and overdrafts	152	17
Finance lease interest	-	7
On intercompany loans	135	543
	287	567

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £'000	2001 £'000
Employee costs during the period amounted to:		
Wages and salaries	16,593	14,061
Social security costs	1,686	2,034
Other pension costs	1,711	2,298
	19,990	18,393

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

	2002 No.	2001 No.
Production and engineering	579	591
Sales	20	20
Administration	107	75
	706	686

Directors' remuneration	2002 £'000	2001 £'000
Emoluments	109	96

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Highest paid director

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

	2002	*2001*
	£'000	**£'000**
Emoluments	109	96

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2002 was £30,661 (2001 : £21,752).

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

	2002	**2001**
	No	**No**
Defined benefit scheme	1	1

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	**2001**
The tax charge is based on the profit for the year and comprises:	**£'000**	**£'000**
United Kingdom Corporation tax at 30% (2001: 30%)	1,612	1,397
Adjustments in respect of prior year:-		
Corporation tax	-	(271)
Total current taxation	1,612	1,126
Deferred taxation:-		
Origination and reversal of timing differences	318	(668)
Adjustment in respect of prior years	65	192
	1,995	650

The tax assessed for the period is lower (2001: higher) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002	**2001**
	£'000	**£'000**
Profit on ordinary activities before tax	6,826	3,203
Tax at 30% thereon	2,048	961
Effects of:		
Expenses not deductible for tax purposes	129	169
Capital allowances in excess of depreciation	145	369
Movement in short term timing differences	(463)	299
Non taxable amortisation of negative goodwill	(247)	(401)
Prior year adjustments	-	(271)
Current tax charge for the year	1,612	1,126

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

9. DIVIDENDS

	2002 £'000	2001 £'000
Interim dividend paid - £0.59 per ordinary share (2001 : £nil)	6,012	-
Final dividend proposed - £1.17 per ordinary share (2001 : £nil)	11,922	-
	17,934	-

10. *INTANGIBLE FIXED ASSETS*

	Negative Goodwill £'000
Cost	
At 1 January 2002 and 31 December 2002	7,203
Accumulated depreciation	
At 1 January 2002	2,463
Credit for the year	824
At 31 December 2002	3,287
Net book value	
At 31 December 2002	3,916
At 31 December 2001	4,740

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

11. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2002	3,144	29,684	32,828
Additions	103	1,894	1,997
Transfers to Group companies	-	(25)	(25)
Disposals	-	(952)	(952)
At 31 December 2002	3,247	30,601	33,848
Accumulated depreciation			
At 1 January 2002	656	13,770	14,426
Charge for the year	156	2,790	2,946
Disposals	-	(829)	(829)
At 31 December 2002	812	15,731	16,543
Net book value			
At 31 December 2002	2,435	14,870	17,305
At 31 December 2001	2,488	15,914	18,402

Freehold land amounting to £207,547 (2001: £207,547) has not been depreciated. Plant and machinery includes fixed assets held under finance leases with a net book value of £nil (2001: £48,608).

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.

At 31 December 2002, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £1,901,000 and £11,972,000 respectively.

12. FIXED ASSET INVESTMENTS

Subsidiary undertakings	2002 £'000	2001 £'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	Dormant	£1 ordinary shares	100%
Kysor BV	Belgium	Dormant	£1 ordinary shares	100%

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

13. STOCKS

	2002 £'000	2001 £'000
Raw materials and consumables	6,903	2,469
Work-in-progress	2,346	1,368
Finished goods and goods for resale	2,242	3,852
	11,491	7,689

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

	2002 £'000	2001 £'000
Trade debtors	13,153	11,537
Amounts owed by group undertakings	18,003	17,568
VAT	160	387
Prepayments and accrued income	1,826	1,703
	33,142	31,195

£12,474,000 (2001: £12,474,000) of amounts owed by group undertakings is due in more than one year.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £'000	2001 £'000
Overdraft	97	1,165
Obligations under finance leases and hire purchase contracts	-	1
Trade creditors	9,291	7,317
Amounts owed to other group companies	2,697	835
Other creditors:		
UK corporation tax payable	2,269	1,809
Social security and PAYE	525	413
Accruals and deferred income	1,879	1,277
Proposed dividends	11,922	-
	28,680	12,817

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

	2002 £'000	2001 £'000
Owed to group companies	18,600	19,429

Creditors falling due after more than one year are all repayable within 2-5 years except for the group loan with Borg Warner Inc., amounting to £5,002,525 at 31 December 2002 and 31 December 2001, 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

17. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:	Deferred Taxation	Product Warranties £'000	Restructuring Provision £'000	Total £'000
At 1 January 2002	1,439	750	-	2,189
Charged to profit and loss account	383	1,588	223	2,194
Utilised in year	-	(808)	-	(808)
At 31 December 2002	1,822	1,530	223	3,575

A provision of £223,000 was made during the year ended 31 December 2002 relating to the costs associated with the closure of the Turbo plant research and development facilities. The provision will be utilised during the coming year.

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

	Provided 2002 £'000	Not provided 2002 £'000	Provided 2001 £'000	Not provided 2001 £'000
Capital allowances in advance of depreciation	1,849	-	1,952	-
Other timing differences	(27)	-	(513)	-
	1,822	-	1,439	-

18. CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'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

19. RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2002	3,917	9,553
Retained loss for the year	-	(13,103)
Transfer of amount equivalent to additional depreciation on revalued assets	(485)	485
At 31 December 2002	3,432	(3,065)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

20. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Profit for the financial year	4,831	2,553
Dividends	(17,934)	-
Net (withdrawals)/additions to shareholders' funds	(13,103)	2,553
Opening equity shareholders' funds	23,660	21,107
Closing equity shareholders' funds	10,557	23,660

21. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2002 £'000	2001 £'000
Contracted for but not provided for	993	-

(b) **Contingent liabilities:**

The company has unsecured guarantees to third parties outstanding amounting to £nil (2001: £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.

	2002		2001	
Operating leases which expire:	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Within one year	85	42	-	41
Within 2-5 years	35	141	156	-
After 5 years	-	-	-	-
	120	183	156	41

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

22. PENSION SCHEME

The company participates in an approved defined benefits plan (the "Plan"). The Plan now operated is the result of the merger of two defined benefit plans, the BorgWarner plan and the Schwitzer Pension plan, with effect from 5 April 2000. The members relating to these two previous plans are referred to as the "Bradford" and "Margam" components respectively. The funds of the plan are administrated by trustees and are separate from the company.

Regular pension costs – SSAP 24

The pension cost relating to the Plan is assessed in accordance with the advice of an independent qualified actuary, Watson Wyatt LLP, using the project unit method. For the purposes of determining pension costs the principal financial assumptions adopted were as follows:

Rate of increase in pensionable earnings	4.0% per annum
Rate of increase to pensions in payment	2.5% per annum
Rate of investment return:	
- pensioners	5.0% per annum
- non-pensioners	6.0% per annum

The most recent actuarial valuation of the Plan was carried out as at 31 March 2002. The market value of the Plan's assets was £56.7million, which represented 93 per cent of the value of accrued benefits after allowing for expected increases in future earnings.

The contribution rates for the year ended 31 December 2002 were 13.5% and 5% of pensionable earnings for the Bradford and Margam components respectively. The long-term contribution rates for the Bradford and Margam components are 13.5% and 17.5% respectively, and hence it has been agreed that Margam contributions should increase to 10% of pensionable earnings with effect from 1 January 2003, and increase gradually to 17.5% of pensionable earnings over the calender year 2003.

As required by SSAP 24, the figures included in the accounts in respect of the company pension plan are based on an actuarial valuation carried out as at 31 March 2002. This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation as at 31 March 2005, based upon which subsequent pension costs will be determined until adoption of FRS 17.

Financial Reporting Standard 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'. The company has complied with the transitional arrangements of FRS17. The transitional arrangements require certain disclosures to be made and do not impact upon the profit and loss account or balance sheet, the disclosures for which are set out below.

The actuarial valuation of the defined benefit plan was updated to 31 December 2002. The principal actuarial assumptions used at 31 December are shown below:

	At 31 December 2002	At 31 December 2001
Rate of increase in salaries	4.00% p.a.	4.00% p.a.
Rate of increase of pensions in payment and deferment	2.50% p.a.	2.50% p.a.
Discount Rate	5.75% p.a.	6.00% p.a.
Inflation assumption	2.50% p.a.	2.50% p.a.

The assets and liabilities of the Plan at 31 December, along with the expected rates of return on scheme assets are shown over the page:

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

22. *PENSION SCHEME (continued)*

	Expected rate of return year commencing 31 December 2002	Value at 31 December 2002 £'000	Expected rate of return year commencing 31 December 2001	Value at 31 December 2001 £'000
Equities	8.6%	29,660	7.7%	31,320
Bonds	4.6%	18,710	4.9%	23,780
Other assets	4.0%	20	4.5%	830
Total market value of assets		48,390		55,930
Actuarial value of liabilities		(65,180)		(56,880)
Deficit in the scheme		(16,790)		(950)
Related deferred tax asset		5,037		285
Net pension liability		(11,753)		(665)

Analysis of amount chargeable to operating profit:

	Year ended 31 December 2002 £'000
Current service cost	2,330

Analysis of the amount to be credited to other finance income:

	Year ended 31 December 2002 £'000's
Expected return on pension scheme assets	3,580
Interest on pension scheme liabilities	(3,330)
Net return	250

Analysis of amount recognisable in the statement of total recognised gains and losses in the year 31 December 2002 had FRS 17 been applied:

	Year ended 31 December 2002 £'000's
Actual return less expected return on pension scheme assets	(10,590)
Experience gains and losses arising on scheme liabilities	(170)
Changes in assumptions underlying present value of scheme liabilities	(4,630)
Actuarial loss recognised in the statement of total recognised gains and losses	(15,390)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2002

22. PENSION SCHEME (continued)

Movement in deficit during the year:	**Year ended 31 December 2002 £'000's**
Deficit in scheme at the beginning of the year	(950)
Current service cost	(2,330)
Contributions	1,630
Past service costs	-
Other finance income	250
Actuarial loss	(15,390)
Deficit in scheme at the end of the year	(16,790)

History of experience gains and losses:

Difference between expected and actual return on scheme assets:	
Amount	(10,590)
Percentage of scheme assets	(21.9%)
Experience gains and losses on scheme liabilities:	
Amount	(170)
Percentage of scheme liabilities	(0.3%)
Changes in assumptions underlying present value of scheme liabilities	
Amount	(4,630)
Percentage of scheme assets	(9.6%)
Total amount recognised in statement of total recognised gains and losses	
Amount (£'000's)	(15,390)
Percentage of present value of scheme liabilities	(23.6%)

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

	2002 £'000's
Profit and loss reserve in the financial statements as at year end	(3,065)
Deficit in relation to BW Plan, net of related deferred tax asset	(11,753)
Net additional pension liability	(11,753)
Profit and loss reserve as adjusted	(14,818)

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 2002 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.