

Company Registration number 2346109

BORGWARNER LIMITED

Report and Financial Statements
31 December 2012



BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

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BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Berry
M D Fischer
J Hohenadel
T McGill
A McMaken
C Polzin
S Spencer

COMPANY SECRETARY

P Berry

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
West Yorkshire
BD4 6SE

BANKERS

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

SOLICITORS

Pinsent Masons
1 Park Row
Leeds
LS1 5AB

INDEPENDENT AUDITORS

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

BORGWARNER LIMITED

DIRECTORS' REPORT

Year ended 31 December 2012

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2012

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £14,435,000 (2011 £16,564,000) No dividend is proposed (2011 £nil), leaving a profit for the year of £14,435,000 to be transferred to reserves (2011 £16,564,000)

Business review and principal activities

The Company's principal activities are the manufacture and sale of turbochargers to the automotive industry worldwide

As indicated in the profit and loss account, the Company's sales have reduced by £7,266,000 (7.2%) compared to the year ended December 2011, with the Company's profitability lower by £2,129,000 to £14,435,000. The reduction in turnover was due to high sales experienced during the latter half of 2011, together with a decline in general market demand in the second half of 2012.

The balance sheet shows that the Company's financial position at the year-end has further improved, and includes cash balances of £17,139,000, an increase of £7,993,000 since December 2011.

Net assets have increased due to the strong trading performance, and are £10,339,000 higher than at December 2011. The pension scheme liability has increased to £10,079,000, a movement of £449,000 despite £4,040,000 of past service deficit contributions being made by the Company. This is due mainly to the reduction in the discount rate during the year from 5.0% to 4.5%.

BorgWarner Inc, the ultimate parent undertaking, manages its global operations on a divisional basis. For this reason the directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the turbocharger and driveline divisions is discussed in the group annual financial statements of BorgWarner Inc.

Future Developments

The directors consider that the Company is well positioned in the market and has a strong customer order book. The company is engaged in development activities on significant new customer projects and feels positive that these will provide profitable future revenues.

Principal risks and uncertainties

Competitive world pressures in the automotive industry is a continuing risk, which the Company manages by providing a high quality cost competitive product while maintaining strong relationships with its customers' technical functions.

Credit Risk Policy

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

Liquidity Risk

The Company is financed by facilities arranged by its ultimate parent company on a Europe-wide basis. Interest rate exposure is a relevant factor to the business.

DIRECTORS' REPORT (CONTINUED)

Year ended 31 December 2012

Financial risk management

The UK businesses are exposed to metal commodity price risks, which are managed through a progressive cost reduction strategy and contractual arrangements with the customer base. The Company's European sales are primarily made in Euros and there are therefore risks associated with the Euro to Pound exchange rates. The treasury function actively manages these risks through forward exchange contracts and other mechanisms.

GOING CONCERN

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

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

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

Environment

BorgWarner Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Company's activities.

Employees

Details of the number of employees can be found in note 6 of the financial statements. The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through circulation of information to employees via notice boards, production of a quarterly newsletter and monthly staff committee meetings.

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

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

Third party indemnity

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

BORGWARNER LIMITED

DIRECTORS' REPORT (CONTINUED) **Year ended 31 December 2012**

Directors

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

P Berry
J Bertsch (resigned 5 October 2012)
M D Fischer
J Hohenadel (appointed 5 October 2012)
P Kaempfer (resigned 5 October 2012)
T McGill (appointed 5 October 2012)
A McMaken
C Polzin
S Spencer

Charitable Donations

The Company made £3,531 (2011 £4,212) of donations to charity in 2012

Supplier Payment Policy

Where appropriate to the circumstances prevailing, it is the policy of the Company to place orders with suppliers in documented form and process such orders for payment in accordance with terms and conditions set out therein

The trade creditors at 31 December 2012 represent 69 creditor days (2011 61 days) based on the total amounts invoiced by suppliers during the year

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

BORGWARNER LIMITED

DIRECTORS' REPORT (CONTINUED)

Year ended 31 December 2012

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that

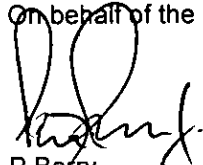
- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- Each director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

On behalf of the Board



P Berry
Director

11 September 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

We have audited the financial statements of BorgWarner Limited for the year ended 31 December 2012 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Randal Casson

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

11 September 2012

BORGWARNER LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	2	93,563	100,829
Cost of Sales	3	<u>(66,112)</u>	<u>(67,931)</u>
Gross Profit		27,451	32,898
Selling and distribution costs and administrative expenses	3	<u>(10,485)</u>	<u>(12,111)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	4	16,966	20,787
Net interest receivable / (payable)	5	5	(58)
Other finance income	19	<u>1,030</u>	<u>1,390</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		18,001	22,119
Tax on profit on ordinary activities	7	<u>(3,566)</u>	<u>(5,555)</u>
PROFIT FOR THE FINANCIAL YEAR	16	<u>14,435</u>	<u>16,564</u>

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

All results derive from continuing operations

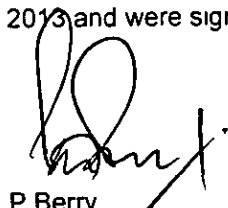
BORGWARNER LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		14,435	16,564
Gain / (Loss) on pension scheme assets	19	2,580	(3,560)
Loss on pension scheme liabilities	19	(1,820)	(2,970)
Loss on change of assumptions in relation to pension scheme liabilities	19	(6,080)	(4,840)
Deferred tax on actuarial gains and losses	19	<u>1,224</u>	<u>2,843</u>
Total recognised gains and losses relating to the year		<u>10,339</u>	<u>8,037</u>

BORGWARNER LIMITED**BALANCE SHEET
As at 31 December 2012**

	Note	2012 £'000	2011 £'000
FIXED ASSETS			
Tangible assets	8	17,634	14,501
Investments	9	2,833	2,833
		<u>20,467</u>	<u>17,334</u>
CURRENT ASSETS			
Stocks	10	10,093	8,984
Debtors amounts falling due within one year	11	14,795	21,446
Cash at bank and in hand		17,139	9,146
		<u>42,027</u>	<u>39,576</u>
CREDITORS amounts falling due within one year	12	<u>(16,956)</u>	<u>(18,819)</u>
NET CURRENT ASSETS		25,071	20,757
DEBTORS , amounts falling due after more than one year		<u>1,591</u>	<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		47,129	38,091
CREDITORS , amounts falling due after more than one year	13	(12,930)	(12,930)
PROVISIONS FOR LIABILITIES	14	<u>(398)</u>	<u>(2,148)</u>
NET ASSETS BEFORE PENSION LIABILITY		33,801	23,013
Pension liability	19	<u>(10,079)</u>	<u>(9,630)</u>
NET ASSETS AFTER PENSION LIABILITY		<u>23,722</u>	<u>13,383</u>
CAPITAL AND RESERVES			
Called up share capital	15	10,190	10,190
Profit and loss account	16	13,532	3,193
TOTAL SHAREHOLDERS' FUNDS		<u>23,722</u>	<u>13,383</u>

These financial statements on pages 8 to 28 were approved by the Board of Directors on 11 September 2013 and were signed on its behalf by



P Berry
Director

BorgWarner Limited, Company Registration number 2346109

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards and the Companies Act 2006. The particular accounting policies adopted are described below and have been applied consistently throughout the year and preceding year.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Cash flow statement

A cash flow statement has not been prepared as the company has taken advantage of FRS 1 (Revised 1996) Cash Flow Statement, as this company's ultimate parent company, BorgWarner Inc., published consolidated financial statements which include a consolidated cash flow statement dealing with the cash flows of the group, including this company. The financial statements of BorgWarner Inc. are available from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

Group financial statements

The directors have not presented consolidated financial statements because the company is a wholly owned subsidiary undertaking of BorgWarner Holdings Limited, a company registered in England and Wales, which prepares consolidated financial statements. Further information relating to the company's subsidiary undertakings is given in note 21 to the financial statements. These financial statements therefore present information about the company and not its group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the Directors' report.

Turnover

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

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Pension costs

The cost of providing pensions under the defined benefit schemes is determined using actuarial valuations carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the profit and loss account and presented in the statement of total recognised gains and losses.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2012

1 ACCOUNTING POLICIES (CONTINUED)

Pension costs (Continued)

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested

The pension liability recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and the pension asset represents the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme

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

Fixed asset investments

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

Tangible fixed assets and depreciation

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

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

Freehold land and buildings	25 years
Plant and machinery	3 to 12 years

There is no depreciation on freehold land

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are re-valued unless by the balance sheet date there is a binding agreement to sell the re-valued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

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

Stocks

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

Cost represents expenses incurred in bringing each product to its present location and condition and includes materials, direct labour and a share of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Provisions

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

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2012**2. TURNOVER**

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

	2012 £'000	2011 £'000
Sales to third parties	80,298	88,589
Sales to fellow group undertakings	<u>13,265</u>	<u>12,240</u>
	<u>93,563</u>	<u>100,829</u>

	2012 £'000	2011 £'000
Contributions to turnover by geographical destination were as follows		
United Kingdom	5,808	6,892
Rest of Europe	78,394	87,419
Rest of the World	<u>9,361</u>	<u>6,518</u>
	<u>93,563</u>	<u>100,829</u>

All turnover arises in the United Kingdom

3. ANALYSIS OF PROFIT AND LOSS ACCOUNT

	2012 £'000	2011 £'000
Cost of sales	<u>66,112</u>	<u>67,931</u>
Operating expenses, net		
Distribution costs	934	1,176
Administrative expenses.		
General	<u>9,551</u>	<u>10,935</u>
Total administrative expenses	<u>10,485</u>	<u>12,111</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2012**4. OPERATING PROFIT**

	2012	2011
	£'000	£'000
Operating profit is stated after charging / (crediting)		
Depreciation of tangible fixed assets		
- owned assets	2,519	2,253
Operating lease rentals		
- plant and machinery	81	155
- other	306	273
Profit on disposal of fixed assets	<u>(2)</u>	<u>(635)</u>

	2012	2011
	£'000	£'000
Auditors' remuneration		
- Fees payable to the company's auditors for the <i>audit of the company's annual financial statements</i>	78	69
- Fees payable for tax compliance services	12	12
- Fees payable for tax advisory services	<u>15</u>	<u>45</u>
	<u>105</u>	<u>126</u>

5. NET INTEREST RECEIVABLE / (PAYABLE)

	2012	2011
	£'000	£'000
Bank loans and overdrafts	(3)	(42)
Intercompany loans	8	(16)
	<u>5</u>	<u>(58)</u>

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012	2011
	£'000	£'000
Employee costs during the year amounted to		
Wages and salaries	14,798	14,226
Social security costs	1,364	1,209
Other pension costs (note 19)	895	1,676
	<u>17,057</u>	<u>17,111</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31 December 2012

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

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

	2012 £'000	2011 £'000
Production and engineering	347	340
Sales	5	4
Administration	90	102
	<u>442</u>	<u>446</u>

	2012 £'000	2011 £'000
Directors' remuneration		
Aggregate emoluments	<u>314</u>	<u>348</u>
Company Pension contribution to money purchase scheme	<u>23</u>	<u>26</u>

Retirement benefits are accruing to two directors under the company's money purchase pension scheme (2011 two)

	2012 £'000	2011 £'000
Highest Paid Director		
Aggregate emoluments	<u>194</u>	<u>236</u>
Company Pension contributions to money purchase scheme	<u>14</u>	<u>18</u>

During the year seven of the Directors consider that their services to the Company were incidental to their other duties and accordingly no remuneration, fees or other benefits were paid to the Directors by the Company or costs allocated to it. These directors are either employed by BorgWarner Inc or other non-UK subsidiaries to BorgWarner Inc that are not controlled by either BorgWarner Holdings Limited or BorgWarner Limited.

One director (2011 1) exercised share options during the year and shares were received or receivable in respect of qualifying services for two directors (2011 2) under a long-term incentive scheme.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2012****7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

Current taxation charge is based on the profit for the year and comprises	2012 £'000	2011 £'000
United Kingdom corporation tax charge at 24.5% (2011 26.5%)	3,168	1,972
Adjustments in respect of prior year corporation tax	(977)	19
Total current taxation	2,191	1,991
 Deferred taxation		
- Origination and reversal of timing differences	1,088	3,667
- Deferred tax rate difference	287	295
- Adjustment in respect of prior years	-	(398)
Total taxation charge	3,566	5,555

The tax assessed for the year is lower (2011 lower) than that resulting from applying the standard effective rate of corporation tax in the UK of 24.5% (2011 26.5%). The differences are explained below:

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	18,001	22,119
Profit on ordinary activities multiplied by standard rate in the UK 24.5% (2011 26.5%)	4,410	5,861
Effects of		
Expenses not deductible for tax purposes	33	182
Capital allowances in excess of depreciation / accelerated capital allowances	(130)	27
Movement in short term timing differences	(1,076)	(1,490)
Losses carried forward	(69)	(2,424)
Non-taxable income	-	(184)
Adjustments in respect of prior year corporation tax	(977)	19
Current tax charge for the year	2,191	1,991

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

The Finance Act 2012 was substantively enacted on 17 July 2012 and included legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012. A further reduction to 23% from 1 April 2013 was also substantively enacted. The deferred tax asset at 31 December 2012 has been re-measured accordingly.

In addition to the changes in rates of Corporation tax disclosed above, further changes to the UK Corporation tax rates were announced in the 2012 Autumn Statement and the March 2013 Budget. These include further reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2012****7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

The reductions in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 were substantively enacted as part of Finance Act 2013 on 2 July 2013. The overall effect of these further changes, if applied to the deferred tax balance at the balance sheet date, would be to further reduce the deferred tax asset by an additional £37,000.

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2012	3,614	21,304	24,918
Additions	58	5,594	5,652
Disposals	-	(51)	(51)
At 31 December 2012	<u>3,672</u>	<u>26,847</u>	<u>30,519</u>
Accumulated depreciation			
At 1 January 2012	1,676	8,741	10,417
Charge for the year	116	2,403	2,519
Disposals	-	(51)	(51)
At 31 December 2012	<u>1,792</u>	<u>11,093</u>	<u>12,885</u>
Net book value			
At 31 December 2012	<u>1,880</u>	<u>15,754</u>	<u>17,634</u>
At 31 December 2011	<u>1,938</u>	<u>12,563</u>	<u>14,501</u>

Freehold land amounting to £207,547 (2011 £207,547) has not been depreciated

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

At 31 December 2012, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £1,685,000 (2011 £1,693,000) and £13,297,000 (2011 £12,478,000) respectively.

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

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2012**9 INVESTMENTS**

Subsidiary undertakings	£'000
Cost and net book value	
At 31 December 2012 and 31 December 2011	<u>2,833</u>

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

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

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

10 STOCKS

	2012 £'000	2011 £'000
Raw materials and consumables	5,760	5,066
Work-in-progress	3,578	2,624
Finished goods and goods for resale	755	1,294
	<u>10,093</u>	<u>8,984</u>

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

11 DEBTORS

	2012 £'000	2011 £'000
Amounts falling due within one year		
Trade debtors	12,856	19,433
Amounts owed by group undertakings	123	91
Value added tax	1,014	946
Deferred taxation	429	-
UK corporation tax receivable	355	814
Prepayments and accrued income	18	162
	<u>14,795</u>	<u>21,446</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31 December 2012

11. DEBTORS (CONTINUED)

	2012	2011
	£'000	£'000
Deferred tax asset/liability		
Accelerated capital allowances	480	(442)
Other timing differences	(51)	89
Total deferred tax	<u>429</u>	<u>(353)</u>
At start of period	(353)	
Deferred tax credit in profit and loss account for period (note 7)	782	
At end of period	<u>429</u>	

The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	2011
	£'000	£'000
Trade creditors	12,547	12,150
Amounts owed to other group undertakings	2,485	4,118
Other creditors		
- Social security and PAYE	366	376
Accruals and deferred income	1,558	2,175
	<u>16,956</u>	<u>18,819</u>

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

	2012	2011
	£'000	£'000
Amounts owed to group undertakings	<u>12,930</u>	<u>12,930</u>

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

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2012****14. PROVISIONS FOR LIABILITES**

	Deferred tax £'000	Product warranties £'000	Total £'000
Provisions for liabilities comprise			
At 1 January 2012	353	1,795	2,148
Charged to profit and loss	(353)	(261)	(614)
Utilised in year	-	(1,136)	(1,136)
At 31 December 2012	<u>-</u>	<u>398</u>	<u>398</u>

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

15. CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Authorised		
20,000,000 ordinary shares of £1 each (2011 20,000,000)	<u>20,000</u>	<u>20,000</u>
Allotted and fully paid		
10,190,002 ordinary shares of £1 each (2011 10,190,002)	<u>10,190</u>	<u>10,190</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2012**16. RESERVES**

	Profit and loss account £'000
At 1 January 2012	3,193
Actuarial loss for current year under FRS17	(5,320)
Deferred tax under FRS17	1,224
Retained profit for the financial year	14,435
At 31 December 2012	<u>13,532</u>

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
Profit for the financial year	14,435	16,564
Actuarial loss	(5,320)	(11,370)
Deferred tax on actuarial loss	1,224	2,843
Net increase in shareholders' funds	<u>10,339</u>	<u>8,037</u>
Opening shareholders' funds	13,383	5,346
Closing shareholders' funds	<u>23,722</u>	<u>13,383</u>

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

	2012 £'000	2011 £'000
Contracted for but not provided for	<u>5,719</u>	<u>4,427</u>

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31 December 2012

18 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)**(b) Lease commitments:**

The company leases certain assets under operating leases. The lease agreements provide that the company will pay all insurance, maintenance and repairs. The lease of land and buildings are not subject to rent reviews at specified periods.

	2012		2011	
	Land and Buildings £'000	Plant and Machinery £'000	Land and Buildings £'000	Plant and Machinery £'000
Operating leases which expire				
Within one year	-	-	75	-
Within 2 – 5 years	-	242	-	266
After 5 years	1,931	-	2,162	17
	<u>1,931</u>	<u>242</u>	<u>2,237</u>	<u>283</u>

19. PENSION SCHEME

The group participates in an approved pension plan (the "Plan") of which the company is a part. The Plan consists of two defined benefit sections, referred to as the Bradford and Margam sections, and a defined contribution section that was introduced with effect from October 2003. The funds of the plan are administered by trustees and are separate from the group. The pension asset / (liability) is all held within BorgWarner Limited and is not a closed scheme. The asset / (liability) is accounted for in BorgWarner Limited financial statements and then consolidated into BorgWarner Holdings Limited financial statements.

Defined benefit schemes

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2011 and updated to 31 December 2012 for the purposes of FRS17 'Retirement Benefits'. The present value of defined benefit obligations and related current service cost and past service cost was measured using the projected unit credit cost method.

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

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

	2012	2011
Rate of increase in salaries	n/a	n/a
Rate of increase of pensions in payment and deferment (LPI 5%)	2.65% p a	3.00% p a
Rate of increase of pensions in payment and deferment (LPI 2.5%)	1.80% p a	2.25% p a
Discount rate	4.50% p a	5.00% p a
Inflation assumption	2.75% p a	3.00% p a

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2012****19. PENSION SCHEME (CONTINUED)**

	2012	2011
	Years	Years
Mortality assumptions		
Retiring today		
Males	21.4	21.3
Females	23.6	23.9
Retiring in 20 years		
Males	24.0	23.5
Females	26.4	26.2

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

	2012	2011
	£'000	£'000
Analysis of the amount to be credited to other finance income		
Expected return on pension scheme assets	6,050	6,570
Interest on pension scheme liabilities	<u>(5,020)</u>	<u>(5,180)</u>
Net income	<u>1,030</u>	<u>1,390</u>

Actuarial gains and losses have been reported in the statement of total recognised gains and losses. The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS17 'Retirement Benefits' is a loss of £33,226,000 (2011 loss of £29,132,000)

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

	2012	2011
	£'000	£'000
Present value of defined benefit obligations	111,160	102,520
Fair value of scheme assets	<u>(98,070)</u>	<u>(89,680)</u>
Deficit in scheme	(13,090)	(12,840)
Related deferred tax	<u>3,011</u>	<u>3,210</u>
Liability recognised in balance sheet	<u>(10,079)</u>	<u>(9,630)</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31 December 2012

19. PENSION SCHEME (CONTINUED)

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

	2012 £'000	2011 £'000
At 1 January	102,520	94,560
Interest cost	5,020	5,180
Actuarial loss	7,900	7,810
Benefits paid	<u>(4,280)</u>	<u>(5,030)</u>
At 31 December	<u>111,160</u>	<u>102,520</u>

Movements in the fair value of scheme assets were as follows

	2012 £'000	2011 £'000
At 1 January	89,680	87,570
Expected return on scheme assets	6,050	6,570
Actuarial gain / (loss)	2,580	(3,560)
Employer contributions	4,040	4,130
Benefits paid	<u>(4,280)</u>	<u>(5,030)</u>
At 31 December	<u>98,070</u>	<u>89,680</u>

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

	2012		2011	
	Expected rate of return	Fair value of assets £'000	Expected rate of return	Fair value of assets £'000
Equity instruments	7.6%	56,685	8.5%	46,813
Bonds	4.5%	38,953	4.5%	39,100
Other assets	3.8%	<u>2,432</u>	3.5%	<u>3,767</u>
		<u>98,070</u>		<u>89,680</u>

Other assets are represented by cash deposits and property

The actual rate of return achieved on scheme assets for the year to 31 December 2012 was 9.5% (2011 3.3%)

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2012****19 PENSION SCHEME (CONTINUED)**

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

The five-year history of experience adjustments is as follows

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Difference between expected and actual return on scheme assets					
Amount	2,580	(3,560)	2,850	4,950	(21,800)
Percentage of scheme assets	2.63%	(3.97%)	3.25%	6.24%	(30.83%)
Experience losses on scheme liabilities					
Amount	(1,820)	(2,970)	(460)	(120)	(2,450)
Percentage of scheme liabilities	(1.64%)	(2.90%)	(0.49%)	(0.13%)	(3.18%)
Changes in assumptions underlying present value of scheme liabilities					
Amount	(6,080)	(4,840)	(2,210)	(14,100)	16,210
Percentage of scheme assets	(6.20%)	(5.40%)	(2.52%)	(17.76%)	22.93%
Total amount recognised in statement of total recognised gains and losses					
Amount	(5,320)	(11,370)	(180)	(9,270)	(8,040)
Percentage of present value of scheme liabilities	(4.79%)	(11.09%)	(0.19%)	(10.17%)	(10.43%)

The company estimates that there will be contributions to the scheme of £4,296,000 during the accounting period 1 January 2013 to 31 December 2013.

BORGWARNER LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
Year ended 31 December 2012**19. PENSION SCHEME (CONTINUED)**

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

	2012	2011
	£'000	£'000
Gain / (Loss) on pension scheme assets	2,580	(3,560)
Loss on pension scheme	(1,820)	(2,970)
Loss on change of assumptions in relation to pension scheme liabilities	(6,080)	(4,840)
	<u>(5,320)</u>	<u>(11,370)</u>
Deferred tax on actuarial gains and losses	1,224	2,843
	<u>(4,096)</u>	<u>(8,527)</u>

Defined contribution scheme

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

The total cost charged to income in 2012 of £895,400 (2011 £894,700) represents contributions payable to the scheme by the group at rates specified in the rules of the plans. As at 31 December 2012, there was no amount (2011 £nil) due in respect of the current reporting year that had not been paid over to the scheme.

20. DERIVATIVES NOT INCLUDED AT FAIR VALUE

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

	Principal		Fair value	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Forward foreign exchange contracts	<u>24,063</u>	<u>54,010</u>	<u>673</u>	<u>(126)</u>

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

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2012

21. ULTIMATE PARENT COMPANY

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

At 31 December 2012, the ultimate parent undertaking and largest group for which consolidated financial statements are prepared was BorgWarner Inc which is incorporated in the State of Delaware, USA. Copies of its financial statements can be obtained from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA

The directors regard BorgWarner Inc to be the ultimate controlling party

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