Company Registration No. 2346109

BORGWARNER LIMITED

Report and Financial Statements

31 December 2008

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

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BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M D Fischer
C Tait

SECRETARY

P D Berry

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

BANKERS

Barclays Bank Plc
10 Market Street
Bradford
BD1 1NR

SOLICITORS

Pinsent Masons
1 Park Row
Leeds
LS1 5AB

AUDITORS

Deloitte LLP
Chartered Accountants and Registered Auditors
Leeds

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

ACTIVITIES

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

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £1,256,000 (2007: profit £8,820,000). No dividend is proposed (2007: £nil), leaving a profit of £1,256,000 to be transferred to reserves (2007: profit of £8,820,000 transferred to reserves).

Business Review and Principal Activities

In December 2008, it is with deep regret that the group announced the decision to cease driveline activities at the Margam facility, following a review which determined that the plant was no longer financially viable. Closure of the plant is expected in 2010 following the completion of existing contracted programs. Restructuring costs of £7,740,000 have been charged during 2009 associated with the closure of this business segment, and which includes estimates of employee severance and consideration of asset impairment.

The Company's principal activities are the manufacture and sales of turbochargers and driveline components to the automotive industry worldwide. There have not been any significant changes in the company's principal activities in the year under review.

As indicated in the profit and loss account, the Company's sales have reduced by 10.8% over the prior year, and the profit after tax has reduced from a profit of £8.8m to a profit of £1.3m. The 2008 profit after tax included restructuring, the impact of which was £8.9m (2007 : £2.2m).

The balance sheet shows that the Company's financial position at the year end is, in cash terms improved over the prior year. The net assets have reduced mainly due to the movement on the pension scheme of £4.8m. Details of the amount owed to the parent company have been disclosed in note 14 and 15 of the accounts.

BorgWarner Limited manages its 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 accounts of BorgWarner Inc.

Principal Risks and Uncertainties

Competitive world pressures in the driveline business 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.

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.

The Company is financed by a fixed rate loan from its parent and UK bank overdraft facilities. Interest rate exposure is a relevant factor to the business.

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 current economic conditions create uncertainty particularly over the level of demand for the group's products, raw materials cost and foreign currency exchange rates. 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. 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.

DIRECTORS' REPORT (continued)

Environment

BorgWarner 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 7 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.

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.

DIRECTORS

The directors who served during the year are shown below.

M D Fischer
C Tait

CHARITABLE DONATIONS

The company made £11,672 (2007: £17,294) of donations to charity in 2008.

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 2008 represent 46 creditor days (2007: 45 days) based on the total amounts invoiced by suppliers during the year.

DISCLOSURE OF RELEVANT 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
- the director has taken all the steps that she ought to have taken as a director to make 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 s234ZA of the Companies Act 1985.

AUDITORS

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP.

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

M D Fischer

M D Fischer
22 October 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed;
- 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 that 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 1985. 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 2008 which comprise the Profit and Loss account, the Note of Historical Cost Profits and Losses, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22. 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

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Leeds
21 October 2009

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Turnover	2	109,749	123,024
Cost of sales	3	(93,752)	(108,165)
Gross profit		15,997	14,859
Other operating expenses	3	(8,244)	(3,171)
OPERATING PROFIT		7,753	11,688
Costs of a fundamental restructuring	5	(7,740)	-
Interest payable and similar charges	6	(116)	(573)
Other finance income	20	1,390	1,440
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,287	12,555
Tax on profit on ordinary activities	8	(31)	(3,735)
PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	18	1,256	8,820

All of the above relate to continuing operations.

NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 31 December 2008

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	1,287	12,555
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	460	460
Historical cost profit on ordinary activities before taxation	1,747	13,015
Historical cost profit for the year after taxation	1,716	9,280

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2008

	2008 £'000	2007 £'000
Retained profit on ordinary activities after tax	1,256	8,820
Loss on pension scheme assets	(21,800)	(440)
Loss on pension scheme liabilities	(2,450)	(470)
Gain on change of assumptions in relation to pension scheme liabilities	16,210	9,500
Deferred tax on actuarial gains and losses	2,251	(2,427)
Total recognised gains and losses relating to the year	(4,533)	14,983

BALANCE SHEET
31 December 2008

	Note	2008 £'000	2007 £'000
FIXED ASSETS			
Tangible assets	10	17,836	25,568
Investments	11	2,833	2,833
		20,669	28,401
CURRENT ASSETS			
Stocks	12	8,997	9,042
Debtors	13	14,964	19,838
Cash at bank and in hand		2,669	6
		26,630	28,886
CREDITORS: amounts falling due within one year	14	(12,488)	(22,560)
NET CURRENT ASSETS		14,142	6,326
TOTAL ASSETS LESS CURRENT LIABILITIES		34,811	34,727
CREDITORS: amounts falling due after more than one year	15	(12,930)	(12,911)
PROVISIONS FOR LIABILITIES	16	(3,991)	(4,189)
NET ASSETS BEFORE PENSION (LIABILITY) / ASSET		17,890	17,627
Pension (liability) / asset	20	(4,594)	202
NET ASSETS AFTER PENSION (LIABILITY) / ASSET		13,296	17,829
CAPITAL AND RESERVES			
Called up share capital	17	10,190	10,190
Revaluation reserve	18	519	979
Profit and loss account	18	2,587	6,660
TOTAL SHAREHOLDERS' FUNDS		13,296	17,829

These financial statements were approved by the Board of Directors and authorised for issue on 22 October 2009.

Signed on behalf of the Board of Directors

M D Fischer

M D Fischer

Company Registration No. 2346109

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. 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 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, 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 3850 Hamlin Road, Auburn Hills, Michigan 48326, 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 11 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 have 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.

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

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. Negative goodwill is transferred to the profit and loss account to the extent that it is represented by monetary assets, in the period expected to benefit. To the extent negative goodwill is represented by non-monetary assets it is transferred to the profit and loss account as and when they are recovered through depreciation or sale.

Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods despatched 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 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

1. **ACCOUNTING POLICIES (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.

Fixed asset investments

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

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 amount of each asset on a straight-line basis over its estimated useful life as follows:

Freehold buildings	25 years
Plant and machinery	3 to 10 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 group'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 revalued unless by the balance sheet date there is a binding agreement to sell the revalued 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.

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

2. SEGMENTAL INFORMATION

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

	2008 £'000	2007 £'000
Sales to third parties	96,457	111,306
Sales to fellow group undertakings	13,292	11,718
	109,749	123,024

Contributions to turnover by geographical destination were as follows:

	2008 £'000	2007 £'000
United Kingdom	9,392	5,485
Rest of Europe	81,686	87,388
Rest of the World	18,671	30,151
	109,749	123,024

3. ANALYSIS OF PROFIT AND LOSS ACCOUNT

	2008 £'000	2007 £'000
Cost of sales	93,752	108,165
Operating expenses, net		
Selling and marketing costs	426	1,842
Administrative expenses:		
General	6,656	1,949
Amortisation of negative goodwill	-	(620)
Total administrative expenses	6,656	1,329
	7,082	3,171

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

4. OPERATING PROFIT

Operating profit is stated after charging / (crediting):	2008 £'000	2007 £'000
Depreciation of tangible fixed assets		
- owned assets	4,687	4,759
Operating lease rentals		
- plant and machinery	158	223
- other	84	241
Loss on disposal of fixed assets	21	65
Amortisation of negative goodwill	-	(620)

	2008 £'000	2007 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	83	82
Total audit fees	83	82
- Tax services	58	49
Total non-audit fees	58	49
Total fees	141	131

5. EXCEPTIONAL ITEMS REPORTED AFTER OPERATING PROFIT

The costs of a fundamental restructuring arose in respect to actions taken at the Margam and Bradford Divisions in 2008, associated with impairment provisions and redundancy costs.

The effects of the exceptional items reported after operating profit on the amount charged to the profit and loss account for taxation was:

	Tax on profit on ordinary activities	
	2008 £'000	2007 £'000
Cost of a fundamental restructuring	2,167	-

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £'000	2007 £'000
Bank loans and overdrafts	90	480
Intercompany loans	26	93
	116	573

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2008 £'000	2007 £'000
Employee costs during the period amounted to:		
Wages and salaries	16,903	18,096
Social security costs	1,442	1,540
Other pension costs	3,510	2,496
	21,855	22,132

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

	2008 No.	2007 No.
Production and engineering	443	514
Sales	12	10
Administration	131	116
	586	640

Directors' remuneration	2008 £'000	2007 £'000
Emoluments	-	-

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

	2008 No	2007 No
Defined benefit scheme	-	-

During the year 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.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and comprises:	2008 £'000	2007 £'000
United Kingdom Corporation tax at 28.5% (2007: 30%)	1,826	838
Adjustments in respect of prior years corporation tax	(581)	(35)
Total current taxation	1,245	803
Deferred taxation:-		
Origination and reversal of timing differences	(1,218)	2,866
Adjustment in respect of prior years	4	66
	31	3,735

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessed for the period is higher (2007: lower) than that resulting from applying the standard effective rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	1,287	12,555
Tax at 28.5% thereon	367	3,767
Effects of:		
Expenses not deductible for tax purposes	191	119
Capital allowances in excess of depreciation	1,825	(126)
Movement in short term timing differences	(557)	(1,408)
Utilisation of tax losses	-	(1,328)
Non taxable amortisation of negative goodwill	-	(186)
Prior year adjustments	(581)	(35)
Current tax charge for the year	1,245	803

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.

9. INTANGIBLE FIXED ASSETS

	Negative Goodwill £'000
Cost	
At 31 December 2007 and 31 December 2008	7,203
Accumulated amortisation	
At 1 January 2008	7,203
Credit for the year	-
At 31 December 2008	7,203
Net book value	
At 31 December 2008	-
At 31 December 2007	-

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 2008

10. TANGIBLE FIXED ASSETS

Cost or valuation	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
At 1 January 2008	5,326	44,740	50,066
Additions	49	3,336	3,385
Disposals	-	(6,000)	(6,000)
At 31 December 2008	5,375	42,076	47,451
Accumulated depreciation			
At 1 January 2008	1,814	22,684	24,498
Charge for the year	250	4,437	4,687
Impairment losses	-	5,981	5,981
Disposals	-	(5,551)	(5,551)
At 31 December 2008	2,064	27,501	29,615
Net book value			
At 31 December 2008	3,311	14,525	17,836
At 31 December 2007	3,512	22,056	25,568

Freehold land amounting to £207,547 (2007: £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 2008, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £3,066,000 (2007: £3,294,000) and £14,430,000 (2007: £22,392,000) respectively.

11. FIXED ASSET INVESTMENTS

Subsidiary undertakings	£'000
Cost	
At 1 January 2008 and 31 December 2008	3,327
Provision for impairment	
At 1 January 2008 and 31 December 2008	494
Net book value	
At 31 December 2008 and 31 December 2007	2,833

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%

The provision for impairment relates to the investment in Kysor BV, which has been impaired to nil value upon that company's liquidation in 2004.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

12. STOCKS

	2008 £'000	2007 £'000
Raw materials and consumables	5,264	5,479
Work-in-progress	2,119	2,558
Finished goods and goods for resale	1,614	1,005
	8,997	9,042

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

13. DEBTORS

Amounts falling due within one year:	2008 £'000	2007 £'000
Trade debtors	11,996	16,761
Amounts owed by group undertakings	1,443	1,431
VAT	375	802
Prepayments and accrued income	1,150	728
	14,964	19,722
Amounts falling due after more than one year:		
Other debtors	-	116
	14,964	19,838

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Bank loans and overdraft	3	-
Trade creditors	5,080	10,282
Amounts owed to other group companies	2,623	6,711
Other creditors:		
UK corporation tax payable	1,824	2,232
Social security and PAYE	305	467
Accruals and deferred income	2,653	2,868
	12,488	22,560

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

	2008 £'000	2007 £'000
Owed to group companies	12,930	12,911

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

16. PROVISIONS FOR LIABILITES

Provisions for liabilities comprise:	Deferred Taxation £'000	Product Warranties £'000	Restructuring Provision £'000	Total £'000
At 1 January 2008	1,488	2,228	473	4,189
Charged to profit and loss account	(1,601)	770	2,920	2,089
Utilised in year	-	(1,261)	(1,026)	(2,287)
At 31 December 2008	(113)	1,737	2,367	3,991

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.

Restructuring provisions have been made for employee severance costs, in respect of activities from which the company is either withdrawing or there is a reduction in demand. These amounts are calculable to a high degree of certainty, and will be paid within a period of one year of the balance sheet date.

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

	Provided 2008 £'000	Not provided 2008 £'000	Provided 2007 £'000	Not provided 2007 £'000
Capital allowances in advance of depreciation	352	-	2,188	-
Short term timing differences	(465)	-	(700)	-
Tax loss carry forward	-	-	-	-
	(113)	-	1,488	-

Deferred taxation has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further rollover relief is not available. The estimated amount of tax that would be payable in these circumstances is £151,573 (2007: £151,573).

17. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'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

18. RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2008	979	6,660
Actuarial loss for current year under FRS17	-	(8,040)
Deferred tax asset under FRS17	-	2,251
Retained profit for the year	-	1,256
Transfer of amount equivalent to additional depreciation on revalued assets	(460)	460
At 31 December 2008	519	2,587

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2008 £'000	2007 £'000
Contracted for but not provided for	1,290	1,461

(b) Lease commitments:

The group 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 subject to rent reviews at specified periods.

	2008		2007	
Operating leases which expire:	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Within one year	52	-	99	34
Within 2-5 years	-	135	52	126
After 5 years	-	-	-	-
	52	135	151	160

20. PENSION SCHEME

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

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 2008 and updated to 31 December 2008 for the purposes of FRS17. The present value of the defined benefit obligation, the related current service cost and past service cost were 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 long-term contribution rate for the Bradford and Margam components are 12.9% and 19.5% respectively and these have been paid from January 2008.

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

	2008	2007
Rate of increase in salaries	2.75% p.a	3.50% p.a
Rate of increase of pensions in payment and deferment (LPI 5%)	2.75% p.a	3.25% p.a
Rate of increase of pensions in payment and deferment (LPI 2.5%)	2.25% p.a	2.25% p.a
Discount Rate	6.50% p.a	5.75% p.a
Inflation assumption	2.75% p.a	3.25% p.a

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

20. PENSION SCHEME (continued)

Mortality assumptions:

	2008 years	2007 years
Retiring today:		
Males	20.2	19.7
Females	23.3	22.7
Retiring in 20 years:		
Males	21.6	21.0
Females	24.7	24.0

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

Analysis of amount chargeable to operating profit:

	2008 £'000	2007 £'000
Current service cost	2,930	1,920
Past service costs	-	380
Net charge	2,930	2,300
Gain on curtailment	-	(2,330)
Net gain	-	(2,300)

Analysis of the amount to be credited to other finance income:	2008 £'000	2007 £'000
Expected return on pension scheme assets	6,400	6,120
Interest on pension scheme liabilities	(5,010)	(4,680)
Net income	1,390	1,440

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 is a loss of £14,060,000 (2007: loss of £8,271,000).

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

	2008 £'000	2007 £'000
Present value of defined benefit obligations	(77,080)	(89,050)
Fair value of scheme assets	70,700	89,330
(Deficit)/surplus in scheme	(6,380)	280
Related deferred tax	1,786	(78)
(Liability)/asset recognised in balance sheet	(4,594)	202

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

20. PENSION SCHEME (continued)

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

	2008 £'000	2007 £'000
At 1 January	89,050	97,860
Service cost	2,930	2,300
Interest cost	5,010	4,680
Contributions from scheme members	-	140
Actuarial (gain)/loss	(13,760)	(9,030)
Benefits paid	(6,150)	(4,570)
Past service cost	-	380
Curtailments	-	(2,330)
At 31 December	77,080	89,050

Movements in the fair value of scheme assets were as follows:

	2008 £'000	2007 £'000
At 1 January	89,060	85,060
Expected return on scheme assets	6,400	6,120
Actuarial gain/(loss)	(21,800)	(400)
Employer contributions	3,190	2,980
Contributions from scheme members	-	140
Benefits paid	(6,150)	(4,570)
At 31 December	70,700	89,330

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

	Expected rate of return 2008	Fair value of assets 2008 £'000	Expected rate of return 2007	Fair value of assets 2007 £'000
Equity instruments	8.5% p.a	42,279	8.75%	55,270
Bonds	4.5% p.a	24,321	4.75%	31,340
Other assets	3.5% p.a	4,100	5.00%	2,720
		70,700		89,330

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2008

20. PENSION SCHEME (continued)

The five-year history of experience adjustments is as follows:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Difference between expected and actual return on scheme assets:					
Amount	(21,800)	(440)	(120)	7,360	860
Percentage of scheme assets	(30.83%)	(0.49%)	(0.14%)	9.51%	1.37%
Experience gains and (losses) on scheme liabilities:					
Amount	(2,450)	(470)	3,110	6,840	1,660
Percentage of scheme liabilities	(3.18%)	(0.53%)	3.18%	6.90%	2.04%
Changes in assumptions underlying present value of scheme liabilities					
Amount	16,210	9,500	2,070	(19,440)	(3,440)
Percentage of scheme assets	22.93%	10.63%	2.43%	(25.14%)	(5.47%)
Total amount recognised in statement of total recognised gains and losses					
Amount	(8,040)	8,590	5,060	(5,240)	(920)
Percentage of present value of scheme liabilities	(10.43%)	9.65%	5.17%	(5.28%)	(1.13%)

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 of £580,000 (2007: £461,000) represents contributions payable to the scheme by the group at rates specified in the rules of the plans. As at 31 December 2008, contributions of £42,000 (2007: £51,000) due in respect of the current reporting period had not been paid over to the scheme.

21. DERIVATIVES NOT INCLUDED AT FAIR VALUE

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

	Principal 2008 £'000	Fair value 2008 £'000	Fair value 2007 £'000
Forward foreign exchange contracts	116,153	(31,718)	(4,893)

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

22. 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 2008 the ultimate parent undertaking and largest group for which consolidated accounts are prepared was Borg-Warner 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 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.