

# **BORGWARNER LIMITED**

## **Report and Financial Statements 31 December 2017**

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# **BORGWARNER LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2017**

### **CONTENTS**

### **Page**

<b>Officers and professional advisers</b>	<b>1</b>
<b>Strategic report for the year ended 31 December 2017</b>	<b>2</b>
<b>Directors' report for the year ended 31 December 2017</b>	<b>4</b>
<b>Independent auditors' report to the members of BorgWarner Limited</b>	<b>7</b>
<b>Income statement for the year ended 31 December 2017</b>	<b>9</b>
<b>Statement of comprehensive income for the year ended 31 December 2017</b>	<b>10</b>
<b>Balance sheet as at 31 December 2017</b>	<b>11</b>
<b>Statement of changes in equity for the year ended 31 December 2017</b>	<b>12</b>
<b>Cash flow statement for the year ended 31 December 2017</b>	<b>13</b>
<b>Notes to the financial statements for the year ended 31 December 2017</b>	<b>14</b>

# **BORGWARNER LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2017**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

T Allen  
M D Fischer  
T McGill  
A McMaken  
R Nieves  
C Polzin

#### **COMPANY SECRETARY**

A McMaken

#### **REGISTERED OFFICE**

Roydsdale Way  
Euroway Industrial Estate  
Bradford  
West Yorkshire  
BD4 6SE

#### **BANKERS**

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

#### **SOLICITORS**

Pinsent Masons  
1 Park Row  
Leeds  
LS1 5AB

#### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

## **BORGWARNER LIMITED**

### **STRATEGIC REPORT**

**For the year ended 31 December 2017**

The directors present their strategic report on the Company for the financial year ended 31 December 2017

#### **Principal activities**

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

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

The profit for the financial year is £8,608,000 (2016: £11,853,000). No dividend is proposed (2016: £nil), leaving a profit for the financial year of £8,608,000 to be transferred to reserves (2016: £11,853,000).

As indicated in the income statement, the Company's sales have increased by 38.9% (2016: decrease of 7.2%) compared to the financial year ended 31 December 2016, with the Company's profitability lower by £5,071,000 to £6,782,000. The increase in turnover was due to increased market share in the Off-Highway sector of the Commercial Vehicle Market and the introduction of sales of Passenger Car products. The profitability has increased due to the output for the passenger car turbocharger market.

The balance sheet shows that the Company's financial position at the year-end has further improved, and includes cash balances of £2,719,000 (2016: £2,929,000). During the year the parent company, BorgWarner Inc, acquired Sevcon Limited. BorgWarner Limited has funded the working capital of Sevcon Limited with an Intercompany interest bearing loan of £7,700,000. BorgWarner Limited has no investment in Sevcon Limited.

#### **Non-financial risks**

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

"Brexit" will potentially provide a major challenge to the company and several possible scenarios have been prepared. However, as the final position remains unknown it is not possible to quantify the risk further.

#### **Future developments**

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

## BORGWARNER LIMITED

### STRATEGIC REPORT (CONTINUED) For the year ended 31 December 2017

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

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

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

	2017	2016	Definition, method of calculation and analysis
Growth in sales (%)	38.9%	(7.2%)	Year on year sales growth expressed as a percentage. The year on year increase is a result of trading gains by our customers on the off-highway sector together with the addition of Passenger Car sales.
Return on sales (%)	8.0%	17.3%	Return on sales is the ratio of profit on ordinary activities before taxation to sales expressed as a percentage. Return on sales has reduced due to costs incurred in developing applications for the continued passenger car turbocharger market. Part of this business commenced in 2016 but increases are anticipated in 2018 and beyond.
Working capital turns	3.9	4.3	Working capital turns is the ratio of sales to stocks plus trade debtors less trade creditors. The reason for the change is primarily due to the higher year end stocks and receivables resulting from a greater market share of off-highway business achieved by our customers. Creditors have increased slightly due to charges from group companies relating to the transfer of production activity from Germany.
Current Ratio	2.44	2.28	The current ratio is a financial ratio that compares a firm's current assets to its current liabilities. The ratio has increased as a result of a higher level of trading.

On behalf of the board

  
A McMaken  
Director

Sgt. 26, 2017

## **BORGWARNER LIMITED**

### **DIRECTORS' REPORT**

**For the year ended 31 December 2017**

The directors present their annual report and the audited financial statements of the Company for the financial year ended 31 December 2017.

#### **Future developments**

An indication of the likely future developments of the business is included in the Strategic Report on page 2.

#### **Political donations**

There were no political donations during the financial year (2016: £nil).

#### **Dividends**

The directors do not recommend the payment of a dividend (2016: £nil).

#### **Financial risk management**

The UK business is exposed to metal commodity price risks, which are managed through a progressive cost reduction strategy and contractual arrangements with the customer base.

A moderate proportion of the Company's European sales are made in Euros and there are therefore risks associated with the Euro to Pound exchange rates. The treasury function actively manages these risks through forward exchange contracts and other mechanisms.

As a subsidiary of BorgWarner Europe GmbH, further details of Company policies in relation to external financial risks, can be found in the Annual Report and Financial Statements of BorgWarner Europe GmbH. Copies of its financial statements can be obtained from Augustaanlage 54-56, 68165 Mannheim, Germany.

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

#### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

T Allen  
M D Fischer  
T McGill  
A McMaken  
R Nieves  
C Polzin

#### **Directors' indemnities**

The Company maintained throughout the year, and at the date of approval of the financial statements, liability insurance for its directors and officers. This is a qualifying provision for the purposes of the Companies Act 2006.

## **BORGWARNER LIMITED**

### **DIRECTORS' REPORT (CONTINUED)** **For the year ended 31 December 2017**

#### **Research and Development**

The Company is engaged in Research and Development activities and is committed to innovation and technological developments for future business awards.

#### **Disabled employees**

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

#### **Employee consultation**

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

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

#### **Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

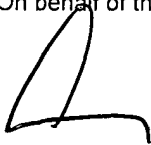
**BORGWARNER LIMITED**

**DIRECTORS' REPORT (CONTINUED)**  
**For the year ended 31 December 2017**

**Independent auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the board



A McMaken  
Director

*Sgt. 26, 2018*

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



**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF BORGWARNER LIMITED**  
**For the year ended 31 December 2017**

**Report on the audit of the financial statements**

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**Opinion**

In our opinion, BorgWarner Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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**Basis for opinion**

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

**Independence**

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

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**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF BORGWARNER LIMITED**  
**For the year ended 31 December 2017**

**Report on the audit of the financial statements (continued)**

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

*Use of this report*

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

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**Other required reporting**

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**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



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

28 September 2018

**BORGWARNER LIMITED****INCOME STATEMENT****For the year ended 31 December 2017**

	<b>Note</b>	<b>2017 £'000</b>	<b>2016 £'000</b>
Turnover	4	108,485	78,061
Cost of Sales		(83,676)	(61,376)
<b>GROSS PROFIT</b>		<b>24,809</b>	<b>16,685</b>
Selling costs		(2,452)	(1,022)
Distribution costs		(1,479)	(629)
Administrative expenses		(12,274)	(10,714)
Other income		-	797
<b>OPERATING PROFIT</b>	5	<b>8,604</b>	<b>5,117</b>
Dividend received	7	-	8,440
Interest receivable and similar income	8	67	1
<b>PROFIT BEFORE TAXATION</b>		<b>8,671</b>	<b>13,558</b>
Tax on profit	9	(63)	(1,705)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>8,608</b>	<b>11,853</b>

All results derive from continuing operations.

**BORGWARNER LIMITED****STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2017**

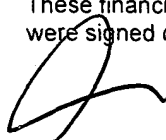
	Note	2017 £'000	2016 £'000
Profit for the financial year		8,608	11,853
Other comprehensive income/(expense)			
Remeasurements of net defined benefit obligation	20	<u>10,602</u>	<u>(4,250)</u>
Other comprehensive income/(expense) for the year, net of tax		<u>10,602</u>	<u>(4,250)</u>
Total comprehensive income for the year		<u>19,210</u>	<u>7,603</u>

# BORGWARNER LIMITED

## BALANCE SHEET As at 31 December 2017

	Note	017 £'000	2016 £'000
<b>FIXED ASSETS</b>			
Tangible assets	10	30,682	27,198
Investments	11	37,264	37,264
		<u>67,946</u>	<u>64,462</u>
<b>CURRENT ASSETS</b>			
Stocks	12	15,861	10,365
Debtors			
(amounts falling due after more than one year: £832k (2016: £1,373k))	13	34,739	26,828
Cash at bank and in hand		2,719	2,929
		<u>53,319</u>	<u>41,495</u>
<b>CREDITORS: amounts falling due within one year</b>	14	<u>(21,603)</u>	<u>(17,569)</u>
<b>NET CURRENT ASSETS</b>		<u>31,716</u>	<u>23,926</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		99,662	88,388
<b>CREDITORS : amounts falling due after more than one year</b>	15	(12,930)	(12,930)
<b>PROVISIONS FOR LIABILITIES</b>	16	(5,056)	(2,600)
Pension asset	20	13,695	3,303
<b>NET ASSETS</b>		<u>95,371</u>	<u>76,161</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	10,190	10,190
Retained earnings		85,181	65,971
<b>TOTAL EQUITY</b>		<u>95,371</u>	<u>76,161</u>

These financial statements on pages 9 to 32 were approved by the Board of Directors on Sep. 26, 2018 and were signed on its behalf by:



A McMaken  
Director  
BorgWarner Holdings Limited  
Company Registration number 2346109

**BORGWARNER LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2017**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
Balance as at 1 January 2016	10,190	53,139	63,329
Profit for the financial year	-	11,853	11,853
Other comprehensive expense for the year	-	(4,250)	(4,250)
Total comprehensive income for the year	-	7,603	7,603
Balance as at 31 December 2016	10,190	65,971	76,161
Balance as at 1 January 2017	10,190	65,971	76,161
Profit for the financial year	-	8,608	8,608
Other comprehensive income for the year	-	10,602	10,602
Total comprehensive income for the year	-	19,210	19,210
Balance as at 31 December 2017	10,190	85,181	95,371

# BORGWARNER LIMITED

## CASH FLOW STATEMENT For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
<b>Cash flow from operating activities</b>			
Profit for the financial year		8,608	11,853
Adjustments for			
Depreciation	10	3,411	3,844
Loss/(Profit) on disposal of tangible fixed assets	5	48	(4)
Interest receivable	8	(67)	(1)
Dividends receivable	7	-	(8,440)
Taxation	9	63	1,705
(Increase) in receivables		(6,314)	(7,080)
(Increase) in inventories		(5,496)	(1,753)
Increase in payables		3,811	2,877
Increase/(decrease) in warranty provision		1,298	(54)
Pension balance		651	(2,709)
<b>Cash from operations</b>		<b>6,013</b>	<b>239</b>
Interest received		47	1
Income tax received/(paid)		625	(474)
<b>Net cash generated from/(used by) operating activities</b>		<b>6,685</b>	<b>(234)</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of fixed asset		-	4
Purchase of tangible fixed assets		(6,895)	(852)
<b>Net cash outflow used by investing activities</b>		<b>(6,895)</b>	<b>(848)</b>
<b>Net change in cash and cash equivalents</b>		<b>(210)</b>	<b>(1,082)</b>
Foreign exchange difference on cash and cash equivalents		-	47
Cash and cash equivalents at start of year		2,929	3,964
<b>Cash and cash equivalents at the end of the year</b>		<b>2,719</b>	<b>2,929</b>

## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 December 2017**

#### **1. GENERAL INFORMATION**

BorgWarner Limited is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Roydsdale way, Euroway industrial estate, Bradford, West Yorkshire, BD4 6SE.

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

#### **2. STATEMENT OF COMPLIANCE**

The Company and individual financial statements of BorgWarner Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

The financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The date of transition to FRS 102 was 1 January 2014.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the later sections of accounting policies.

##### **Going concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the Directors' report.

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

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a Company that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the consolidated financial statements of BorgWarner Inc. which are publicly available.

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

- i) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- ii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.



## **BORGWARNER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 December 2017 (continued)**

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

##### **Foreign currency**

###### **i) Functional and presentation currency**

The Company financial statements are presented in Pound Sterling and rounded to thousands.

The Company's functional and presentation currency is the Pound Sterling.

###### **ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

###### **iii) Translations**

The trading results of Company undertakings are translated into Sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in 'Other comprehensive income'.

##### **Turnover**

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

##### **Employee benefits**

The Company provides a range of benefits to employees, including paid holiday arrangements, defined benefit and defined contribution pension plans.

###### **i) Short term benefits**

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

###### **ii) Defined contribution pension plans**

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. Associated pension costs are expensed in the consolidated income statement when incurred.

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2017 (continued)

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

##### Employee benefits (continued)

##### iii) Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The asset recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Once in three years, the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Finance expense'.

Past service cost is recognised immediately in profit or loss in the period in which they occur.

##### iv) Share-based payments

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

Equity-settled arrangements are measured at fair value (excluding the effect on nonmarket based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the income statement.

The Company has no cash-settled arrangements.

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017 (continued)

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

##### **Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

##### **i) Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

##### **ii) Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

##### **Tangible assets and depreciation**

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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

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

There is no depreciation on freehold land.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

##### **Leases**

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases and lease incentives received are charged on a straight-line basis to the income statement over the term of the lease.

## **BORGWARNER LIMITED**

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

**For the year ended 31 December 2017 (continued)**

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

##### **Impairment of non-financial assets**

At each quarter end non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the consolidated income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated income statement.

##### **Investments - Company**

Investment in group companies are held at cost less accumulated impairment losses.

##### **Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to sell (net realizable value). Stocks are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the weighted average price method, some of which represent the most recent purchase price. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stocks to its present location and condition.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the consolidated income statement. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the consolidated income statement.

##### **Cash and Cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

##### **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

## **BORGWARNER LIMITED**

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

**For the year ended 31 December 2017 (continued)**

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

##### **Provisions (continued)**

Provisions are recorded for restructuring, retirements, onerous contracts, and other obligations.

Restructuring provisions are recognised when the Company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

##### **Financial instruments**

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### **i) Financial assets**

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the consolidated income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in consolidated income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### **ii) Financial liabilities**

Basic financial liabilities, including trade and other payables, bank loans and loans from Company companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017 (continued)

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

##### Financial instruments (continued)

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires

##### iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### Critical judgements and estimates in applying the accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, turnover and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### - Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of assets. The useful economic lives and residual values are assessed annually. They are amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of tangible assets and note 3 above for the useful economic lives for each class of asset.

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2017 (continued)****4. TURNOVER**

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

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Sales to third parties	97,029	66,980
Sales to Group Companies	11,456	11,081
	<u>108,485</u>	<u>78,061</u>
Contributions to turnover by geographical destination were as follows:	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
United Kingdom	31,786	11,589
Europe	67,475	59,461
Rest of the World	9,224	7,011
	<u>108,485</u>	<u>78,061</u>

All turnover arises in the United Kingdom.

**5. OPERATING PROFIT**

	<b>Note</b>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Operating profit is stated after charging/(crediting) :			
Depreciation of tangible assets (owned)	10	3,411	3,844
Operating lease charges		168	146
Research and development costs		2,894	3,918
Net foreign currency differences gain		(917)	(729)
Loss/(Gain) on disposal of fixed assets		48	(4)
		<u>2017</u> <u>£'000</u>	<u>2016</u> <u>£'000</u>
Auditors' remuneration:			
- Fees payable to the Company's auditors for the audit of the Parent Company's annual financial statements		2	2
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements		79	76
- Fees payable for Audit related assurance services		-	-
- Fees payable for tax compliance services		16	16
- Fees payable for tax advisory services		15	25
		<u>111</u>	<u>119</u>

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017 (continued)

**6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2017 £'000	2016 £'000
Employee costs during the year amounted to:		
Wages and Salaries	13,413	11,975
Social Security Costs	1,167	1,099
Other pension Costs (note 20)	1,813	913
	<u>16,083</u>	<u>13,987</u>

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

	2017 Number	2016 Number
Production and Engineering	334	257
Sales	4	4
Administration	65	76
	<u>403</u>	<u>337</u>

	2017 £'000	2016 £'000
<b>Directors' remuneration</b>		
Aggregate remuneration	<u>251</u>	<u>457</u>
Company Pension Contribution to defined contribution scheme	<u>17</u>	<u>23</u>

During the year compensation for loss of office was provided of £Nil (2016: £300,000).

Retirement benefits are accruing to one director under the Company's money purchase pension scheme (2016: two).

	2017 £'000	2016 £'000
<b>Highest Paid Director</b>		
Aggregate remuneration	<u>251</u>	<u>241</u>
Company pension contributions to money purchase scheme	<u>17</u>	<u>14</u>

During the year, five (2016: five) of the Directors consider that their services to the Company were incidental to their other duties and accordingly no remuneration, fees or other benefits were paid to the Directors by the Company or costs allocated to it. These directors are either employed by BorgWarner Inc. or other non-UK subsidiaries to BorgWarner Inc. that are not controlled by BorgWarner Limited.

One director (2016: two) exercised share options during the year and shares were received or receivable in respect of qualifying services for one director (2016: two) under a long-term incentive scheme.



**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017 (continued)

**7. DIVIDEND Received**

	2017 £'000	2016 £'000
Dividends received from investments	<u>-</u>	<u>8,440</u>

**8. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2017 £'000	2016 £'000
Intercompany loans	<u>67</u>	<u>1</u>
	<u>67</u>	<u>1</u>

**9. TAX ON PROFIT****(a) Tax expense included in profit or loss**

	2017 £'000	2016 £'000
Current taxation charge is based on the profit for the financial year and comprises:		
United Kingdom corporation tax charge at 19.25% (2016: 20%)	2,176	2,885
Adjustments in respect of prior years	(4,483)	(1,418)
Total current taxation	<u>(2,307)</u>	<u>1,467</u>
Deferred taxation:		
- on differences between depreciation and capital allowances	242	196
- on other timing differences	2,128	196
- Impact of tax rate change	-	(154)
Total deferred taxation	<u>2,370</u>	<u>238</u>
Total taxation charge	<u>63</u>	<u>1,705</u>

**(b) Tax expense included in other comprehensive income**

	2017 £'000	2016 £'000
Deferred tax		
Deferred tax on actuarial gains and losses	2,128	340
Tax rate change	-	120
Total tax expense/(credit) included in other comprehensive income	<u>2,128</u>	<u>460</u>

# BORGWARNER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017 (continued)

### 9. TAX ON PROFIT (CONTINUED)

#### (c) Reconciliation of tax (credit)/charge

The tax assessed for the year is lower (2016: lower) than that resulting from applying the standard effective rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Profit before taxation	8,671	13,558
Profit before tax multiplied by standard rate in the UK 19.25% (2016: 20%).	1,669	2,712
Effects of:		
Expenses not deductible for tax purposes	56	52
Rate differences on deferred taxation	-	(154)
Movement in short term timing differences	2,370	392
Other movements	451	121
Adjustments in respect of prior year	(4,483)	(1,418)
Total tax (credit) charge for the year	63	1,705

#### (d) Tax rate changes

The main rate of Corporation tax in the United Kingdom is 19.25% effective 1 April 2017. The Finance Act 2016 included legislation to reduce the rate to 19% from 1 April 2017 and 17% from 1 April 2020. As these changes had been substantively enacted at the reporting date, the deferred tax balances have been re-measured at 17%.

### 10. TANGIBLE ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 2017	6,910	45,540	52,450
Additions	203	6,742	6,945
Disposals	-	(547)	(547)
At 31 December 2017	7,113	51,735	58,848
<b>Accumulated depreciation</b>			
At 1 January 2017	2,492	22,759	25,251
Charge for the year	269	3,142	3,411
Disposals	-	(496)	(496)
At 31 December 2017	2,761	25,405	28,166
<b>Net book value</b>			
At 31 December 2017	4,352	26,330	30,682
At 31 December 2016	4,418	22,781	27,198

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017 (continued)

#### 10. TANGIBLE ASSETS (CONTINUED)

Freehold land amounting to £207,547 (2016: £207,547) has not been depreciated.

The transitional arrangements of FRS 15 'Tangible 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 Group 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 2017, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £4,157,000 (2016: £4,223,000) and £23,873,000 (2016: £20,323,000) 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.

#### 11. INVESTMENTS

	2017 £'000	2016 £'000
Investment at cost	37,264	32,073
Additions during the year	-	5,191
Net book value	<u>37,264</u>	<u>37,264</u>

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

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

	Country of incorporation registration	Registered office	Principal activity	Description of shares held	Proportion of shares held
BorgWarner Limited	England and Wales	Roydsdale Way Euroway Industrial Estate Bradford West Yorkshire BD4 6SE	Manufacture and sale of turbochargers	£1 ordinary shares	100%
Kysor (Europe) Limited	England and Wales	Roydsdale Way Euroway Industrial Estate Bradford West Yorkshire BD4 6SE	Dormant	£1 ordinary shares	100%*
BorgWarner PDS (Indiana) Inc	USA	600 Corporation Dr Pendleton, In 46064 USA	Holding Company	Common Stock	0.1777%*
BorgWarner Europe Holdings (PDS) B.V.	Netherlands	Prinsenhil 29 4825 AX BREDA Netherland	Holding Company	Common Stock	10.47%*

\* shares held indirectly through BorgWarner Limited

# **BORGWARNER LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2017 (continued)**

### **12. STOCKS**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials and consumables	7,123	6,154
Work-in-progress	6,255	3,261
Finished goods and goods for resale	2,483	950
	<u>15,861</u>	<u>10,365</u>

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

### **13. DEBTORS**

This comprises:	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Amounts falling due within one year	33,683	26,828
Amounts falling due after more than one year	832	1,373
	<u>34,515</u>	<u>28,201</u>

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	20,886	14,551
Amounts owed by group undertakings	12,124	11,211
Value added tax	673	47
	224	-
Corporation Tax receivable	-	-
Prepayments and accrued income	-	1,019
	<u>33,907</u>	<u>26,828</u>

Amounts owed by group undertakings are repayable on demand, incur no interest and carry no security.

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due after more than one year</b>		
Amounts owed by Group undertakings	<u>832</u>	<u>1,373</u>

# **BORGWARNER LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2017 (continued)**

### **13. DEBTORS (continued)**

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Later than one year and not later than five years	558	1,099
Later than five years	274	274
	<u>832</u>	<u>1,373</u>

### **14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	15,733	13,681
Amounts owed to group undertakings	3,730	1,812
Other creditors:		
Corporation Tax payable	-	309
Other taxation and social security	412	424
Accruals and deferred income	1,728	1,343
	<u>21,603</u>	<u>17,569</u>

Amounts owed to group undertakings are repayable on demand, incur no interest and carry no security

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to Group undertakings	<u>12,930</u>	<u>12,930</u>

### **16. PROVISIONS FOR LIABILITIES**

	<b>Deferred tax</b>	<b>Product warranties</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Provisions for liabilities comprise:			
At 1 January 2017	2,109	491	2,600
Charged to consolidated income statement	242	2,563	2,805
Charged to other comprehensive expenses	2,128	-	2,128
Utilised in year	(1,212)	(1,265)	(2,477)
At 31 December 2017	<u>3,267</u>	<u>1,789</u>	<u>5,056</u>

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2017 (continued)****16. PROVISIONS FOR LIABILITIES (continued)**

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

		<b>2017</b>	<b>2016</b>
		<b>£'000</b>	<b>£'000</b>
<b>Deferred tax liability</b>			
Accelerated capital allowances		1,100	-960
Other timing differences		2,167	1,149
<b>Total deferred tax</b>		<u>3,267</u>	<u>2,109</u>

**17. FINANCIAL INSTRUMENTS**

The Company had no financial assets or liabilities valued at fair value through the profit and loss account (2016: £ nil).

<b>Financial assets that are debt instruments measured at amortised cost:</b>		<b>2017</b>	<b>2016</b>
		<b>£'000</b>	<b>£'000</b>
Trade debtors	13	20,886	14,551
Amounts owed by group undertakings	13	12,124	11,211
Cash and cash equivalents		2,719	2,929
		<u>35,729</u>	<u>28,691</u>

<b>Financial liabilities measured at amortised cost:</b>		<b>2017</b>	<b>2016</b>
		<b>£'000</b>	<b>£'000</b>
Trade creditors	14	15,733	13,681
Amounts owed to group undertakings	14	3,730	1,812
		<u>19,463</u>	<u>15,493</u>

**BORGWARNER LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2017 (continued)****18. CALLED UP SHARE CAPITAL AND OTHER RESERVES**

	2017 £'000	2016 £'000
<b>Authorised</b>		
10,190,000 ordinary shares of £1 each (2016 – same)	<u>10,190</u>	<u>10,190</u>
 <b>Issued, allotted and fully paid</b>		
10,190,000 ordinary shares of £1 each (2016 – same)	<u>10,190</u>	<u>10,190</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of capital and the repayment of capital.

	2017 £'000	2016 £'000
At 1 January	17,134	11,900
Capital contribution related to the purchase of shares in Group companies (Note 11)	-	5,234
At 31 December	<u>17,134</u>	<u>17,134</u>

The directors consider these reserves to be distributable.

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

	2017 £'000	2016 £'000
Contracted for but not provided for	<u>9,468</u>	<u>5,279</u>

## BORGWARNER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017 (continued)

#### 19. 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.

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2017	2016
	£'000	£'000
Payments due:		
Not later than one year	132	18
Later than one year and not later than five years	445	6
Later than five years	-	-
	<u>577</u>	<u>24</u>

#### 20. PENSION SCHEME

The Company participates in an approved pension plan (the "Plan") of which the Company is a part. The Plan consists of two defined benefit sections, referred to as the Bradford and Margam sections, and a defined contribution section that was introduced with effect from October 2003. The funds of the plan are administered by trustees and are separate from the Company. 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 2017 and updated to 31 December 2017 for the purposes of section 28 "Employee Benefits" of FRS 102. 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 Plan's 31 March 2017 actuarial valuation has not been concluded.

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

The amount recognised in the balance sheet is as follows:

	2017	2016
	£'000	£'000
Defined benefit scheme asset as shown below	16,500	3,980
Deferred taxation	(2,805)	(677)
Defined benefit scheme asset	<u>13,695</u>	<u>3,303</u>



# **BORGWARNER LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2017 (continued)**

### **20. PENSION SCHEME (continued)**

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Remeasurement of the DBO Gain/(Loss)	4,030	(29,480)
Return on plan assets greater than discount rate	8,700	24,770
Deferred Tax movement on net defined benefit asset/(liability)	<u>(2,128)</u>	<u>460</u>
	<u>10,602</u>	<u>(4,250)</u>

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Net interest income	(100)	(280)
Administration costs	840	610
Total charge	<u>740</u>	<u>330</u>

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

	<b>2017</b>	<b>2016</b>
Rate of increase in salaries	n/a	n/a
Rate of increase of pensions in payment and deferment (LPI 5%)	3.05%	3.10%
Rate of increase of pensions in payment and deferment (LPI 2.5%)	2.00%	2.00%
Discount rate	2.35%	2.50%
Inflation assumption	3.35%	3.40%

	<b>2017</b>	<b>2016</b>
	<b>Years</b>	<b>Years</b>
Mortality assumptions:		
Retiring today:		
Males	21.3	21.8
Females	23.6	24.2
Retiring in 20 years:		
Males	23.0	24.0
Females	25.4	26.6

# **BORGWARNER LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 December 2017 (continued)**

### **20. PENSION SCHEME (continued)**

	<b>Assets £'000</b>	<b>Liabilities £'000</b>	<b>Total £'000</b>
Reconciliation of scheme assets and liabilities:			
At 1 January 2017	152,390	(148,410)	3,980
Benefits paid			
Employer contributions	(5,160)	5,160	-
Interest income / (expense)	530	-	530
Administration costs	3,760	(3,660)	100
Plan participant contributions	(840)	-	(840)
Remeasurement gains	-	-	-
– Actuarial gains	-	-	-
– Return on plan assets excluding interest income	-	4,030	4,030
	8,700	-	8,700
At 31 December 2017	<u>159,380</u>	<u>(142,880)</u>	<u>16,500</u>

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

	<b>2017 £'000</b>	<b>2016 £'000</b>
Equity instruments	71,052	63,486
Bonds	88,089	85,963
Other assets	239	2,941
	<u>159,380</u>	<u>152,390</u>

Other assets are represented by cash deposits and property.

The Company estimates that there will be contributions to the scheme of £530,000 during the accounting year 1 January 2018 to 31 December 2018.

The return on the plan assets was :

	<b>2017 £'000</b>	<b>2016 £'000</b>
Interest Income	3,760	4,720
Return on plan assets less interest income	8,700	24,770
Total Return on plan assets	<u>12,460</u>	<u>29,490</u>

## **BORGWARNER LIMITED**

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

**For the year ended 31 December 2017 (continued)**

#### **20. PENSION SCHEME (continued)**

##### **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 Company in funds under the control of trustees.

The total cost charged to income in 2017 of £973,000 (2016: £913,000) represents contributions payable to the scheme by the Company at rates specified in the rules of the plans. As at 31 December 2017, there was no amount (2016: £nil) due in respect of the current reporting year that had not been paid over to the scheme.

#### **21. RELATED PARTY TRANSACTIONS**

The Company has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same Company that are wholly owned. The Company discloses transactions with related parties which are not wholly owned with the same Company.

See note 6 for disclosure of the directors' remuneration and key management compensation.

Include the related party transactions for any pension contributions paid to a pension fund and for any remuneration for services provided by an employee. Also, any management fee paid between Company undertakings.

#### **22. ULTIMATE PARENT COMPANY**

At 31 December 2017, the ultimate parent undertaking and largest Company for which consolidated financial statements are prepared was BorgWarner Inc., which is incorporated in the State of Delaware, USA. Copies of its financial statements can be obtained from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

The directors regard BorgWarner Inc. to be the ultimate controlling party.

The Company's immediate parent company is BorgWarner Holdings Limited, which publishes consolidated financial statements available under the same address as the Company's registered office.