ASTRAZENECA PLC
Form 6-K
July 18, 2018

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of July 2018

Commission File Number: 001-11960

AstraZeneca PLC

1 Francis Crick Avenue
Cambridge Biomedical Campus
Cambridge CB2 0AA
United Kingdom

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes __ No X

If "Yes" is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b): 82-_____________

AstraZeneca PLC

INDEX TO EXHIBITS

1.
Holding(s) in Company

TR-1: Standard form for notification of major holdings

NOTIFICATION OF MAJOR HOLDINGS (to be sent to the relevant issuer and to the FCA in Microsoft Word format if possible)i

1a. Identity of the issuer or the underlying issuer of existing shares to which voting rights are attachedii:	AstraZeneca PLC
1b. Please indicate if the issuer is a non-UK issuer (please mark with an "X" if appropriate)	
Non-UK issuer	
2. Reason for the notification (please mark the appropriate box or boxes with an "X")	
An acquisition or disposal of voting rights	X
An acquisition or disposal of financial instruments	
An event changing the breakdown of voting rights	
Other (please specify)iii:	
3. Details of person subject to the notification obligationiv	
Name	The Capital Group Companies, Inc. ("CGC")
City and country of registered office (if applicable)	Los Angeles, CA 90071, USA
4. Full name of shareholder(s) (if different from 3.)v	
Name	
City and country of registered office (if applicable)	
5. Date on which the threshold was crossed or reachedvi:	16 July 2018
6. Date on which issuer notified (DD/MM/YYYY):	17 July 2018

7. Total positions of person(s) subject to the notification obligation

	% of voting rights attached to shares (total of 8. A)	% of voting rights through financial instruments(total of 8.B 1 + 8.B 2)	Total of both in % (8.A + 8.B)	Total number of voting rights of issuervii
Resulting situation on the date on which threshold was crossed or reached	5.037%	0.000%	5.037%	1,266,663,838
Position of previous notification (if applicable)	4.979%	0.000%	4.979%	

8. Notified details of the resulting situation on the date on which the threshold was crossed or reachedviii
A: Voting rights attached to shares

Class/type ofshares ISIN code (if possible)	Number of voting rightsix		% of voting rights	
	Direct (Art 9 of Directive 2004/109/EC) (DTR5.1)	Indirect (Art 10 of Directive 2004/109/EC) (DTR5.2.1)	Direct (Art 9 of Directive 2004/109/EC) (DTR5.1)	Indirect (Art 10 of Directive 2004/109/EC) (DTR5.2.1)
Ordinary (GB0009895292)		53,836,061		4.250%
ADRs		9,966,434		0.787%

(US0463531089)

SUBTOTAL 8. A	63,802,495	5.037%

B 1: Financial Instruments according to Art. 13(1)(a) of Directive 2004/109/EC (DTR5.3.1.1 (a))

Type of financial instrument	Expirationdatex	Exercise/Conversion Periodxi	Number of voting rights that may be acquired if the instrument is exercised/converted.	% of voting rights
		SUBTOTAL 8. B 1		

B 2: Financial Instruments with similar economic effect according to Art. 13(1)(b) of Directive 2004/109/EC (DTR5.3.1.1 (b))

Type of financial instrument	Expirationdatex	Exercise/Conversion Period xi	Physical or cash settlementxii	Number of voting rights	% of voting rights
			SUBTOTAL 8.B.2		

9. Information in relation to the person subject to the notification obligation (please mark the applicable box with an "X")

Person subject to the notification obligation is not controlled by any natural person or legal entity and does not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuerxiii	
Full chain of controlled undertakings through which the voting rights and/or thefinancial instruments are effectively held starting with the ultimate controlling natural person or legal entityxiv (please add additional rows as necessary)	X

Namexv	% of voting rights if it equals or is higher than the notifiable threshold	% of voting rights through financial instruments if it equals or is higher than the notifiable threshold	Total of both if it equals or is higher than the notifiable threshold
The Capital Group Companies, Inc. Holdings by CG Management companies are set out below: Capital Guardian Trust Company1 Capital International, Inc.1 Capital International Limited1 Capital International Sàrl1 Capital Research and Management Company2	5.037%	0.000%	5.037%

1Indirect subsidiaries of Capital Research and Management Company.
2Subsidiary of The Capital Group Companies, Inc.

10. In case of proxy voting, please identify:
Name of the proxy holder
The number and % of voting rights held
The date until which the voting rights will be held

11. Additional informationxvi
CGC is the parent company of Capital Research and Management Company ("CRMC"). CRMC is a U.S.-based investment management company that manages the American Funds family of mutual funds. CRMC manages equity assets for various investment companies through three divisions, Capital Research Global Investors, Capital International Investors and Capital World Investors. CRMC in turn is the parent company of Capital Group International, Inc. ("CGII"), which in turn is the parent company of five investment management companies ("CGII management companies"): Capital Guardian Trust Company, Capital International, Inc., Capital International Limited, Capital International Sàrl and Capital International K.K. The CGII management companies primarily serve as investment managers to institutional clients.

Neither CGC nor any of its affiliates own shares of AstraZeneca plc for its own account. Rather, the shares reported on this Notification are owned by accounts under the discretionary investment management of one or more of the investment management companies described above.

Place of completion	Los Angeles, CA, USA
Date of completion	17 July 2018

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AstraZeneca PLC

Date: 18 July 2018

By: /s/ Adrian Kemp

Name: Adrian Kemp

Title: Company Secretary

td style="vertical-align:bottom;background-color:#cceeff;">

$
613.9

Adjustments to reconcile net earnings to net cash flows from operations:

Non-cash charges (credits) to operations:

Asset impairment and loss on divestiture
71.0

127.1

—

Asbestos-related adjustments
—

(48.6
)

51.4

Gain on previously held equity interest
—

—

(10.8
)

Pension settlement loss	—	—	25.7
Depreciation and amortization	407.8	391.4	320.2
Stock-based compensation expense	52.7	43.6	40.2
Restructuring expense, net of cash paid	27.0	12.0	36.3
Deferred income tax provision (benefit)	41.8	6.8	(5.6)
Tax reform adjustments to provision for income taxes	273.5	—	

—

Equity in affiliates’ earnings, net of dividends received, and other
(32.0
)

(17.0
)

(21.9
)
Net earnings adjusted for non-cash charges to operations
1,325.1

1,152.0

1,049.4

Changes in assets and liabilities:

Receivables
(167.9
)

(137.5
)

(81.8
)
Inventories
(84.5
)

(36.5
)

(52.9
)
Prepayments and other current assets
0.5

8.8

(9.4
)
Accounts payable and accrued expenses
232.8

134.9

23.1

Income taxes payable
(42.8
)

(14.2
)

34.6

Other assets and liabilities
(82.9
)

(71.8
)

(95.1
)
Net cash provided by operating activities
1,180.3

1,035.7

867.9

INVESTING

Capital expenditures, including tooling outlays
(560.0
)

(500.6
)

(577.3
)
Proceeds from sale of businesses, net of cash divested
—

85.8

—

Proceeds from asset disposals and other
4.5

10.6

4.7

Payments for businesses acquired, including restricted cash, net of cash acquired
(185.7
)

—

(1,199.6
)
(Payments for) proceeds from settlement of net investment hedges
(8.5
)

—

13.1

Payments for venture capital investment
(2.6
)

—

—

Net cash used in investing activities
(752.3
)

(404.2
)

(1,759.1
)
FINANCING

Net decrease in notes payable
(88.3
)

(129.1
)

(316.7
)
Additions to long-term debt, net of debt issuance costs
3.0

4.6

1,569.2

Repayments of long-term debt, including current portion
(19.3
)

(193.6
)

(29.8
)
Payments for debt issuance cost
(2.4
)

—

—

Proceeds from interest rate swap termination
—

8.9

—

Payments for purchase of treasury stock
(100.0
)

(288.0
)

(349.8
)
(Payments for) proceeds from stock-based compensation items
(2.1
)

6.7

3.7

Dividends paid to BorgWarner stockholders
(124.1
)

(113.4
)

(116.7
)
Dividends paid to noncontrolling stockholders
(29.3
)

(29.9
)

(23.3
)

Net cash (used in) provided by financing activities	(362.5)	(733.8)	736.6
Effect of exchange rate changes on cash	36.1	(31.7)	(65.5)
Net increase (decrease) in cash	101.6	(134.0)	(220.1)
Cash at beginning of year	443.7	577.7	797.8
Cash at end of year	$ 545.3	$ 443.7	$ 577.7

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

Interest
$
92.0

$
100.3

$
70.2

Income taxes, net of refunds
$
279.8

$
300.5

$
183.8

Non-cash investing transactions

Liabilities assumed from business acquired	$ 18.0	$ —	$ 31.1
Non-cash financing transactions			
Debt assumed from business acquired	$ —	$ —	$ 10.9

(a) Certain amounts have been restated to reflect the corrections discussed in Note 1 to the Consolidated Financial Statements.

See Accompanying Notes to Consolidated Financial Statements.

60

BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	Number of shares		BorgWarner Inc. stockholder's equity					
(in millions of dollars, except share data)	Issued common stock	Common stock held in treasury	Issued common stock	Capital in excess of par value	Treasury stock	Retained earnings (restated)[(a)]	Accumulated other comprehensive income (loss)	Noncontrolling interests
Balance, January 1, 2015	246,390,620	(19,960,537)	$2.5	$1,112.4	$(832.2)	$3,273.1	$ (383.6)	$ 74.7
Dividends declared	—	—	—	—	—	(116.7)	—	(28.5)
Stock incentive plans	—	439,653	—	(1.8)	18.6	—	—	—
Net issuance for executive stock plan	—	—	—	2.4	—	—	—	—
Net issuance of restricted stock	(3,563)	532,951	—	(3.3)	18.2	—	—	—
Purchase of treasury stock	—	(8,074,303)	—	—	(363.0)	—	—	—
Net earnings	—	—	—	—	—	577.2	—	36.7
Other comprehensive loss	—	—	—	—	—	—	(226.6)	(5.1)
Balance, December 31, 2015	246,387,057	(27,062,236)	$2.5	$1,109.7	$(1,158.4)	$3,733.6	$ (610.2)	$ 77.8
Dividends declared	—	—	—	—	—	(113.4)	—	(26.0)
Stock incentive plans	—	793,230	—	(19.4)	32.4	—	—	—
Net issuance for executive stock plan	—	—	—	12.8	—	—	—	—
Net issuance of restricted stock	—	414,464	—	1.2	19.2	—	—	—
Purchase of treasury stock	—	(8,269,550)	—	—	(274.8)	—	—	—
Business divestiture	—	—	—	—	—	—	—	(4.8)
Net earnings	—	—	—	—	—	595.0	—	41.7
Other comprehensive loss	—	—	—	—	—	—	(111.9)	(5.1)
Balance, December 31, 2016	246,387,057	(34,124,092)	$2.5	$1,104.3	$(1,381.6)	$4,215.2	$ (722.1)	$ 83.6
Dividends declared	—	—	—	—	—	(124.1)	—	(29.3)
Stock incentive plans	—	473,419	—	(10.6)	18.9	—	—	—
Net issuance for executive stock plan	—	73,935	—	21.0	2.7	—	—	—
Net issuance of restricted stock	—	402,184	—	4.0	14.6	—	—	—
Purchase of treasury stock	—	(2,399,710)	—	—	(100.0)	—	—	—
Net earnings	—	—	—	—	—	439.9	—	43.4
Other comprehensive income	—	—	—	—	—	—	232.1	11.4
Balance, December 31, 2017	246,387,057	(35,574,264)	$2.5	$1,118.7	$(1,445.4)	$4,531.0	$ (490.0)	$ 109.1

(a) Certain amounts have been restated to reflect the corrections discussed in Note 1 to the Consolidated Financial Statements.

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

BorgWarner Inc. and Consolidated Subsidiaries (the "Company") is a global product leader in clean and efficient technology solutions for combustion, hybrid and electric vehicles. Our products help improve vehicle performance, propulsion efficiency, stability and air quality. These products are manufactured and sold worldwide, primarily to original equipment manufacturers ("OEMs") of light vehicles (passenger cars, sport-utility vehicles ("SUVs"), vans and light trucks). The Company's products are also sold to other OEMs of commercial vehicles (medium-duty trucks, heavy-duty trucks and buses) and off-highway vehicles (agricultural and construction machinery and marine applications). We also manufacture and sell our products to certain Tier One vehicle systems suppliers and into the aftermarket for light, commercial and off-highway vehicles. The Company operates manufacturing facilities serving customers in Europe, the Americas and Asia and is an original equipment supplier to every major automotive OEM in the world. The Company's products fall into two reporting segments: Engine and Drivetrain.

NOTE 1 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company's Board of Directors concluded on June 12, 2018, after careful consideration of the relevant facts and circumstances and following consultation with the Company's management and PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, that the Company's consolidated financial statements for the fiscal years ended December 31, 2016 and 2015 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 should be restated, and that such consolidated financial statements should no longer be relied upon, due to the Company's re-evaluation of its accounting for liabilities relating to the estimated value of asbestos-related claims not yet asserted as of those dates and their associated defense costs. See the Contingencies footnote to the Consolidated Financial Statements for additional information.

The Company has historically been named, and anticipates it will be named in the future, as one of many defendants in asbestos-related personal injury actions. For the fiscal period ended September 30, 2016 and prior fiscal periods, the Company determined, through its application of ASC 450-20, Contingencies, that its liability for asbestos-related claims not yet asserted and their associated defense costs could not then be reasonably estimated for reasons described in the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q for such periods.

The Company further evaluated its ability to estimate asbestos-related claims not yet asserted in connection with the preparation of its consolidated financial statements for the fiscal year ended December 31, 2016, consistent with its standard practice. Management concluded that beginning with the fourth quarter of 2016 it was able to make a reasonable estimate of the liability for asbestos-related claims not yet asserted including associated defense costs. The Company believed, as set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2016, that a culmination of factors relating to asbestos-related claims in 2016 made a reasonable estimate of the liability for unasserted asbestos-related claims possible at that time. The Company accordingly recorded a $703.6 million pretax asbestos-related charge, net of insurance recoveries, in the fourth quarter of 2016. That charge included, for the first time, an estimate of the Company's liability for asbestos-related claims not yet asserted, consistent with the Company's interpretation of ASC 450-20.

The Company engaged in discussions with the staff of the United States Securities and Exchange Commission (the "Staff") beginning in May 2017 concerning the Company's accounting for the asbestos-related charge recorded in its Consolidated Financial Statements for the fiscal year ended December 31, 2016. Following discussions with the Staff, the Company concluded that a re-evaluation of its accounting for asbestos-related claims not yet asserted in the relevant periods and their associated costs was necessary. Based on that re-evaluation, the Company concluded that it should have recorded an estimated liability for

62

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

such claims and costs prior to the fourth quarter of 2016 and the failure to record such an estimated liability in an earlier period(s) was an error in the Company's consolidated financial statements for such period(s).

As a result of the Company's reevaluation of its accounting for unasserted asbestos-related claims including associated defense costs, the Company is amending its 2017 Annual Report to restate certain Consolidated Financial Statements contained therein to reflect the following effects:

- The Company has retroactively determined, with the assistance of its outside actuarial consultant, an appropriate estimated liability for asbestos-related claims and their associated defense costs to be accrued as of December 31, 2012. This amount, together with the impact from recording the corresponding insurance recoveries and deferred tax assets resulted in a decrease to retained earnings of $410.1 million as of December 31, 2012;
- The estimated amount accrued for asbestos-related claims including their associated defense costs as of December 31, 2012 has been included in the Company's Consolidated Financial Statements for each fiscal year ended December 31, 2013, 2014, 2015, and 2016, adjusted for amounts actually spent by the Company during each of those years on account of asbestos-related claims and associated defense costs in addition to any changes in the valuation of the liability;
- The charge originally taken by the Company on account of unasserted asbestos-related claims in the fourth quarter of 2016 has been reversed, resulting in an increase of $700.6 million before tax ($438.7 million after tax) in the Company's 2016 earnings; and
- The Company has made appropriate adjustments to the valuation of its insurance assets that are responsive to asbestos-related claims to account for the estimated value of those assets in all applicable years.

The Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income, Consolidated Statements of Equity, Consolidated Statements of Cash Flows, and Notes 3, 4, 14, 17, 20 and 21, were updated to reflect the restatement.

The following tables identify each financial statement line item affected by the restatement.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except share and per share amounts)	Year Ended December 31, 2016			2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Other expense, net	889.7	(752.2)	137.5	101.4	51.4	152.8
Operating income	225.9	752.2	978.1	939.7	(51.4)	888.3
Earnings before income taxes and noncontrolling interest	190.5	752.2	942.7	926.8	(51.4)	875.4
Provision for income taxes	30.3	275.7	306.0	280.4	(18.9)	261.5
Net earnings	160.2	476.5	636.7	646.4	(32.5)	613.9
Net earnings attributable to the noncontrolling interest, net of tax	41.7	—	41.7	36.7	—	36.7
Net earnings attributable to BorgWarner Inc.	$118.5	$ 476.5	$ 595.0	$609.7	$ (32.5)	$ 577.2
Earnings per share - basic	$0.55	$ 2.23	$ 2.78	$2.72	$ (0.15)	$ 2.57
Earnings per share - diluted	$0.55	$ 2.21	$ 2.76	$2.70	$ (0.14)	$ 2.56

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of dollars)	Year Ended December 31,					
	2016			2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net earnings attributable to BorgWarner Inc.	$118.5	$ 476.5	$ 595.0	$609.7	$ (32.5)	$ 577.2
Comprehensive income attributable to BorgWarner Inc.	6.6	476.5	483.1	383.1	(32.5)	350.6
Comprehensive income	$43.2	$ 476.5	$ 519.7	$414.7	$ (32.5)	$ 382.2

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of dollars)	Year Ended December 31,					
	2016			2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net earnings	$160.2	$ 476.5	$636.7	$646.4	$ (32.5)	$613.9
Adjustments to reconcile net earnings to net cash flows from operations:						
Non-cash charges (credits) to operations:						
Asbestos-related adjustments	703.6	(752.2)	(48.6)	—	51.4	51.4
Deferred income tax provision (benefit)	(268.9)	275.7	6.8	13.3	(18.9)	(5.6)

CONSOLIDATED STATEMENTS OF EQUITY

(in millions of dollars)	Retained earnings
Balance, January 1, 2015	
As Reported	$3,717.1
Adjustments	(444.0)
As Restated	3,273.1
Balance, December 31, 2015	
As Reported	4,210.1
Adjustments	(476.5)
As Restated	$3,733.6

NOTE 1A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following paragraphs briefly describe the Company's significant accounting policies.

Basis of presentation Certain prior period amounts have been reclassified to conform to current period presentation. During 2017, the Company identified a prior period error related to the exclusion of the net earnings attributable to the non-controlling interest in the 2016 and 2015 Consolidated Statements of Comprehensive Income. The inclusion of these amounts increased total Comprehensive Income by $41.7 million and $36.7 million for the years ended December 31, 2016 and 2015, respectively.

The Company concluded that the errors were not material to the financial statements of any prior annual or interim period and therefore, amendments of previously filed reports are not required. In accordance with ASC Topic 250, "Accounting Changes and Error Corrections," we have corrected the error for all prior periods presented by revising

the consolidated financial statements appearing herein. Quarterly periods not

64

---

presented herein will be revised, as applicable, in future filings. The revision had no impact on the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Cash Flows or the Consolidated Statements of Equity.

Use of estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the accompanying notes, as well as the amounts of revenues and expenses reported during the periods covered by these financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of consolidation The Consolidated Financial Statements include all majority-owned subsidiaries with a controlling financial interest. All inter-company accounts and transactions have been eliminated in consolidation. Investments in 20% to 50% owned affiliates are accounted for under the equity method when the Company does not have a controlling financial interest.

Revenue recognition The Company recognizes revenue when title and risk of loss pass to the customer, which is usually upon shipment of product. Although the Company may enter into long-term supply agreements with its major customers, each shipment of goods is treated as a separate sale and the prices are not fixed over the life of the agreements.

Cost of sales The Company includes materials, direct labor and manufacturing overhead within cost of sales. Manufacturing overhead is comprised of indirect materials, indirect labor, factory operating costs and other such costs associated with manufacturing products for sale.

Cash Cash is valued at fair market value. It is the Company's policy to classify all highly liquid investments with original maturities of three months or less as cash. Cash is maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal risk.

Receivables, net Accounts receivable are stated at cost less an allowance for bad debts. An allowance for doubtful accounts is recorded when it is probable amounts will not be collected based on specific identification of customer circumstances or age of the receivable.

See the Balance Sheet Information footnote to the Consolidated Financial Statements for more information on receivables, net.

Inventories, net Cost of certain U.S. inventories is determined using the last-in, first-out ("LIFO") method at the lower of cost or market, while other U.S. and foreign operations use the first-in, first-out ("FIFO") or average-cost methods at the lower of cost and net realizable value. Inventory held by U.S. operations using the LIFO method was $147.4 million and $131.4 million at December 31, 2017 and 2016, respectively. Such inventories, if valued at current cost instead of LIFO, would have been greater by $13.1 million and $15.2 million at December 31, 2017 and 2016, respectively.

See the Balance Sheet Information footnote to the Consolidated Financial Statements for more information on inventories, net.

Pre-production costs related to long-term supply arrangements Engineering, research and development and other design and development costs for products sold on long-term supply arrangements are expensed as incurred unless the Company has a contractual guarantee for reimbursement from the customer. Costs for molds, dies and other tools used to make products sold on long-term supply arrangements for which the Company either has title to the assets or has the non-cancelable right to use

65

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the assets during the term of the supply arrangement are capitalized in property, plant and equipment and amortized to cost of sales over the shorter of the term of the arrangement or over the estimated useful lives of the assets, typically three to five years. Costs for molds, dies and other tools used to make products sold on long-term supply arrangements for which the Company has a contractual guarantee for lump sum reimbursement from the customer are capitalized in prepayments and other current assets.

Property, plant and equipment, net Property, plant and equipment is valued at cost less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items are generally charged to expense as incurred. Renewals of significant items are capitalized. Depreciation is generally computed on a straight-line basis over the estimated useful lives of the assets. Useful lives for buildings range from 15 to 40 years and useful lives for machinery and equipment range from three to 12 years. For income tax purposes, accelerated methods of depreciation are generally used.

See the Balance Sheet Information footnote to the Consolidated Financial Statements for more information on property, plant and equipment, net.

Impairment of long-lived assets, including definite-lived intangible assets The Company reviews the carrying value of its long-lived assets, whether held for use or disposal, including other amortizing intangible assets, when events and circumstances warrant such a review under Accounting Standards Codification ("ASC") Topic 360. In assessing long-lived assets for an impairment loss, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In assessing long-lived assets for impairment, management generally considers individual facilities the lowest level for which identifiable cash flows are largely independent. A recoverability review is performed using the undiscounted cash flows if there is a triggering event. If the undiscounted cash flow test for recoverability identifies a possible impairment, management will perform a fair value analysis. Management determines fair value under ASC Topic 820 using the appropriate valuation technique of market, income or cost approach. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Management believes that the estimates of future cash flows and fair value assumptions are reasonable; however, changes in assumptions underlying these estimates could affect the valuations. Significant judgments and estimates used by management when evaluating long-lived assets for impairment include: (i) an assessment as to whether an adverse event or circumstance has triggered the need for an impairment review; (ii) undiscounted future cash flows generated by the asset; and (iii) fair valuation of the asset.

Assets and liabilities held for sale The Company classifies assets and liabilities (disposal groups) to be sold as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the disposal group; the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups; an active program to locate a buyer and other actions required to complete the plan to sell the disposal group have been initiated; the sale of the disposal group is probable, and transfer of the disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond the Company's control extend the period of time required to sell the disposal group beyond one year; the disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The Company initially measures a disposal group that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held

for sale criteria are met. Conversely, gains are not recognized on the sale of a disposal group until the date of sale. The Company assesses the fair value of a disposal group, less any costs to sell, each reporting period it remains classified as held for sale and reports any subsequent changes

66

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as an adjustment to the carrying value of the disposal group, as long as the new carrying value does not exceed the carrying value of the disposal group at the time it was initially classified as held for sale.

Upon determining that a disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group, if material, in the line items assets held for sale and liabilities held for sale in the Consolidated Balance Sheets. Additionally, depreciation is not recorded during the period in which the long-lived assets, included in the disposal group, are classified as held for sale.

Goodwill and other indefinite-lived intangible assets During the fourth quarter of each year, the Company qualitatively assesses its goodwill and indefinite-lived intangible assets assigned to each of its reporting units. This qualitative assessment evaluates various events and circumstances, such as macro economic conditions, industry and market conditions, cost factors, relevant events and financial trends, that may impact a reporting unit's fair value. Using this qualitative assessment, the Company determines whether it is more-likely-than-not the reporting unit's fair value exceeds its carrying value. If it is determined that it is not more-likely-than-not the reporting unit's fair value exceeds the carrying value, or upon consideration of other factors, including recent acquisition, restructuring or divestiture activity, the Company performs a quantitative, "step one," goodwill impairment analysis. In addition, the Company may test goodwill in between annual test dates if an event occurs or circumstances change that could more-likely-than-not reduce the fair value of a reporting unit below its carrying value.

See the Goodwill and Other Intangibles footnote to the Consolidated Financial Statements for more information on goodwill and other indefinite-lived intangible assets.

Product warranties The Company provides warranties on some, but not all, of its products. The warranty terms are typically from one to three years. Provisions for estimated expenses related to product warranty are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and industry developments and recoveries from third parties. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty claims. Management believes that the warranty accrual is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the accrual. The product warranty accrual is allocated to current and non-current liabilities in the Consolidated Balance Sheets.

See the Product Warranty footnote to the Consolidated Financial Statements for more information on product warranties.

Other loss accruals and valuation allowances The Company has numerous other loss exposures, such as customer claims, workers' compensation claims, litigation and recoverability of assets. Establishing loss accruals or valuation allowances for these matters requires the use of estimates and judgment in regard to the risk exposure and ultimate realization. The Company estimates losses under the programs using consistent and appropriate methods, however, changes to its assumptions could materially affect the recorded accrued liabilities for loss or asset valuation allowances.

Asbestos The Company and certain of its subsidiaries along with numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. With the assistance of third party consultants, the Company estimates the liability and corresponding insurance recovery for pending and future claims not yet asserted through December 31, 2059 with a runoff through 2067 and defense costs. This estimate is based on the Company's historical claim experience and estimates of the number and resolution cost of potential future claims that may be filed based on anticipated levels of unique plaintiff asbestos-related claims in the U.S. tort system against all defendants. This estimate is not discounted to present value. The Company currently believes that

December 31, 2067 is a reasonable assumption as to the last date on which it is likely to have resolved all asbestos-related claims, based on the nature and useful life of the Company's products and the likelihood

67

---

of incidence of asbestos-related disease in the U.S. population generally. The Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs on an ongoing basis by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company continues to have additional excess insurance coverage available for potential future asbestos-related claims. In connection with the Company's ongoing review of its asbestos-related claims, the Company also reviewed the amount of its potential insurance coverage for such claims, taking into account the remaining limits of such coverage, the number and amount of claims on our insurance from co-insured parties, ongoing litigation against the Company's insurers, potential remaining recoveries from insolvent insurers, the impact of previous insurance settlements, and coverage available from solvent insurers not party to the coverage litigation.

See the Contingencies footnote to the Consolidated Financial Statements for more information regarding management's judgments applied in the recognition and measurement of asbestos-related assets and liabilities.

Environmental contingencies The Company accounts for environmental costs in accordance with ASC Topic 450. Costs related to environmental assessments and remediation efforts at operating facilities are accrued when it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated. Estimated costs are recorded at undiscounted amounts, based on experience and assessments and are regularly evaluated. The liabilities are recorded in accounts payable and accrued expenses and other non-current liabilities in the Company's Consolidated Balance Sheets.

See the Contingencies footnote to the Consolidated Financial Statements for more information regarding environmental contingencies.

Derivative financial instruments The Company recognizes that certain normal business transactions generate risk. Examples of risks include exposure to exchange rate risk related to transactions denominated in currencies other than the functional currency, changes in commodity costs and interest rates. It is the objective and responsibility of the Company to assess the impact of these transaction risks and offer protection from selected risks through various methods, including financial derivatives. Virtually all derivative instruments held by the Company are designated as hedges, have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, gains and losses from changes in qualifying hedge fair values are matched with the underlying transactions. All hedge instruments are carried at their fair value based on quoted market prices for contracts with similar maturities. The Company does not engage in any derivative transactions for purposes other than hedging specific risks.

See the Financial Instruments footnote to the Consolidated Financial Statements for more information on derivative financial instruments.

Foreign currency The financial statements of foreign subsidiaries are translated to U.S. dollars using the period-end exchange rate for assets and liabilities and an average exchange rate for each period for revenues, expenses and capital expenditures. The local currency is the functional currency for substantially all of the Company's foreign subsidiaries. Translation adjustments for foreign subsidiaries are recorded as a component of accumulated other comprehensive income (loss) in equity. The Company recognizes transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency in earnings as incurred.

See the Accumulated Other Comprehensive Loss footnote to the Consolidated Financial Statements for more information on accumulated other comprehensive loss.

68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pensions and other postretirement employee defined benefits The Company's defined benefit pension and other postretirement employee benefit plans are accounted for in accordance with ASC Topic 715. Disability, early retirement and other postretirement employee benefits are accounted for in accordance with ASC Topic 712.

Pensions and other postretirement employee benefit costs and related liabilities and assets are dependent upon assumptions used in calculating such amounts. These assumptions include discount rates, expected returns on plan assets, health care cost trends, compensation and other factors. In accordance with GAAP, actual results that differ from the assumptions used are accumulated and amortized over future periods, and accordingly, generally affect recognized expense in future periods.

See the Retirement Benefit Plans footnote to the Consolidated Financial Statements for more information regarding the Company's pension and other postretirement employee defined benefit plans.

Restructuring Restructuring costs may occur when the Company takes action to exit or significantly curtail a part of its operations or implements a reorganization that affects the nature and focus of operations. A restructuring charge can consist of severance costs associated with reductions to the workforce, costs to terminate an operating lease or contract, professional fees and other costs incurred related to the implementation of restructuring activities.

See the Restructuring footnote to the Consolidated Financial Statements for more information regarding the Company's restructuring activities.

Income taxes In accordance with ASC Topic 740, the Company's income tax expense is calculated based on expected income and statutory tax rates in the various jurisdictions in which the Company operates and requires the use of management's estimates and judgments.

See the Income Taxes footnote to the Consolidated Financial Statements for more information regarding income taxes.

New Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging (Topic 815)." It expands and refines hedge accounting for both nonfinancial and financial risk components and reduces complexity in fair value hedges of interest rate risk. It eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements and modifies the accounting for components excluded from assessment of hedge effectiveness. The guidance is effective prospectively for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company expects to early adopt this guidance on Q1 2018 and does not expect the adoption to have a material impact on its Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting." Under this guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the share-based payment award changes as a result of the change in terms or conditions. This guidance is effective prospectively for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect this guidance to have any impact on its Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." It requires disaggregating the service cost component from the other

components of net benefit cost, provides explicit guidance on how to present the service cost

69

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization when applicable. This guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, "Simplifying the Test for Goodwill Impairment." It eliminates Step 2 from the goodwill impairment test and an established that an entity should recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds the reporting unit's fair value, not to exceed the carrying amount of the goodwill. This guidance is effective for annual and any interim impairment tests in fiscal years beginning after December 15, 2019. The Company adopted this guidance in the fourth quarter of 2017 in conjunction with the annual goodwill impairment test and there is no impact on its Consolidated Financial Statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-01, "Clarifying the Definition of a Business." It revises the definition of a business and provides a framework to evaluate when an input and a substantive process are present in an acquisition to be considered a business. This guidance is effective for annual periods beginning after December 15, 2017. The Company does not expect this guidance to have any impact on its Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, "Restricted Cash." It requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." It provides guidance on eight specific cash flow issues with the objective of reducing the existing diversity in practice in how they are classified in the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." Under this guidance, the areas of simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, impact on earnings per share and classification on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Upon adopting this guidance in 2017, the Company recorded a tax benefit of $0.8 million within provision for income tax related to the excess tax benefit on share-based awards and reflected the excess tax benefit in operating activities rather than financing activities in the Consolidated Statements of Cash Flows. The Company elected to apply this change in presentation prospectively, so prior periods have not been adjusted. The Company also excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share for the year ended December 31, 2017. The impact of this change was de minimis. Additionally, the Company elected not to change its policy on accounting for forfeitures and continued to estimate the total number of awards for which the requisite service period will not be rendered.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under this guidance, lessees will be required to recognize a right-of-use asset and a lease liability for all operating leases defined under previous GAAP. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The Company

is currently developing policies and processes to meet the requirements of this

70

new guidance. The Company is in the process of analyzing its global lease obligations in order to evaluate the impact this guidance will have on its Consolidated Financial Statements. See the Leases and Commitments footnote to the Consolidated Financial Statements for further information on the Company's leases.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." It requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. It also requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. This guidance is effective for interim and fiscal years beginning after December 15, 2017. The Company expects to elect the measurement alternative for equity investments without readily determinable fair values and does not expect this guidance to have a material impact on its Consolidated Financial Statements.

In May 2014, the FASB amended the Accounting Standards Codification to add Topic 606, "Revenue from Contracts with Customers," outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseding most current revenue recognition guidance. The new guidance will also require new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company will adopt this guidance effective January 1, 2018 utilizing the Modified Retrospective approach, by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

Throughout 2017 and 2016, the Company monitored FASB activity related to the new standard, and worked with non-authoritative industry groups to assess relevant issues and the implementation of the new standard.

The relevant issues include (1) customer contracts and arrangements related to our highly customized products with no alternative use and for which the Company has an enforceable right to payment which will result in the recognition of revenue over time as parts are produced rather than upon shipment or delivery of the parts; and (2) pricing provisions contained in a limited number of our contracts and customer arrangements. The Company does not expect any changes to how it accounts for reimbursable pre-production costs, currently accounted for as a cost reduction. As the majority of the Company’s revenues are not impacted by the new guidance, the adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations, equity or cash flows.

NOTE 2 RESEARCH AND DEVELOPMENT COSTS

The Company's net Research & Development ("R&D") expenditures are included in selling, general and administrative expenses of the Consolidated Statements of Operations. Customer reimbursements are netted against gross R&D expenditures as they are considered a recovery of cost. Customer reimbursements for prototypes are recorded net of prototype costs based on customer contracts, typically either when the prototype is shipped or when it is accepted by the customer. Customer reimbursements for engineering services are recorded when performance obligations are satisfied in accordance with the contract and accepted by the customer. Financial risks and rewards transfer upon shipment, acceptance of a prototype component by the customer or upon completion of the performance obligation as stated in the respective customer agreement.

The following table presents the Company’s gross and net expenditures on R&D activities:

71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31,		
(millions of dollars)	2017	2016	2015
Gross R&D expenditures	$473.1	$417.8	$386.2
Customer reimbursements	(65.6)	(74.6)	(78.8)
Net R&D expenditures	$407.5	$343.2	$307.4

Net R&D expenditures as a percentage of net sales were 4.2%, 3.8% and 3.8% for the years ended December 31, 2017, 2016 and 2015, respectively. The Company has contracts with several customers at the Company's various R&D locations. No such contract exceeded 5% of net R&D expenditures in any of the years presented.

NOTE 3 OTHER EXPENSE, NET

Items included in other expense, net consist of:

	Year Ended December 31,		
(millions of dollars)	2017	2016	2015
Asset impairment and loss on divestiture	$71.0	$127.1	$—
Restructuring expense	58.5	26.9	65.7
Merger and acquisition expense	10.0	23.7	21.8
Lease termination settlement	5.3	—	—
Asbestos-related adjustments	—	(48.6)	51.4
Intangible asset impairment	—	12.6	—
Pension settlement loss	—	—	25.7
Gain on previously held equity interest	—	—	(10.8)
Other income	(0.3)	(4.2)	(1.0)
Other expense, net	$144.5	$137.5	$152.8

In the third quarter of 2017, the Company started exploring strategic options for the non-core emission product lines. In the fourth quarter of 2017, the Company launched an active program to locate a buyer for the non-core pipes and thermostat product lines and initiated all other actions required to complete the plan to sell the non-core product lines. The Company determined that the assets and liabilities of the pipes and thermostat product lines met the held for sale criteria as of December 31, 2017. As a result, the Company recorded an asset impairment expense of $71.0 million in the fourth quarter of 2017 to adjust the net book value of this business to fair value less costs to sell. See the Assets and Liabilities Held for Sale footnote to the Consolidated Financial Statements for further details.

In October 2016, the Company entered into a definitive agreement to sell the light vehicle aftermarket business associated with Remy. This transaction closed in the fourth quarter of 2016 and the Company recorded a loss on divestiture of $127.1 million in the year ended December 31, 2016. See the Recent Transactions footnote to the Consolidated Financial Statements for further discussion.

During the years ended December 31, 2017, 2016 and 2015, the Company recorded restructuring expense of $58.5 million, $26.9 million and $65.7 million, respectively, primarily related to Drivetrain and Engine segment actions designed to improve future profitability and competitiveness. The restructuring expense in the year ended December 31, 2015 also included amounts related to a global realignment plan intended to enhance treasury management flexibility by creating a legal entity structure that better aligns with the Company's business strategy. See the Restructuring footnote to the Consolidated Financial Statements for further discussion of these expenses.

During the year ended December 31, 2017, the Company recorded $10.0 million of merger and acquisition expense primarily related to the acquisition of Sevcon, Inc. ("Sevcon") completed on September

72

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

27, 2017. See the Recent Transactions footnote to the Consolidated Financial Statements for further discussion.

During the fourth quarter of 2015, the Company acquired 100% of the equity interests in Remy. During the year ended December 31, 2016 and 2015, the Company incurred $23.7 million and $21.8 million of transition and realignment expenses and other professional fees associated with this transaction, respectively. See the Recent Transactions footnote to the Consolidated Financial Statements for further discussion.

During the first quarter of 2017, the Company recorded a loss of $5.3 million related to the termination of a long term property lease for a manufacturing facility located in Europe.

During the year ended December 31, 2016 and 2015, the Company recorded asbestos-related adjustments resulting in a net decrease to Other Expense of $48.6 million and a net increase to Other Expense of $51.4 million, respectively. The net decrease in 2016 is comprised of actuarial valuation changes of $45.5 million associated with the Company's estimate of asserted and unasserted asbestos-related liabilities and a gain of $6.1 million from cash received from insolvent insurance carriers, offset by related consulting fees. The net increase in 2015 is comprised of actuarial valuation changes of $64.8 million associated with the Company's estimate of asserted and unasserted asbestos-related liabilities, offset by a gain of approximately $13.0 million related to a settlement with an insurance carrier. See the Contingencies footnote to the Consolidated Financial Statements for further discussion.

During the fourth quarter of 2016, the Company recorded an intangible asset impairment loss of $12.6 million related to Engine segment Etatech's ECCOS intellectual technology. The ECCOS intellectual technology impairment was due to the discontinuance of interest from potential customers during the fourth quarter of 2016 that significantly lowered the commercial feasibility of the product line.

During the fourth quarter of 2015, the Company settled approximately $48 million of its projected benefit obligation by transferring approximately $48 million in plan assets through a lump-sum pension de-risking disbursement made to an insurance company. This agreement unconditionally and irrevocably guarantees all future payments to certain participants that were receiving payments from the U.S. pension plan. The insurance company assumes all investment risk associated with the assets that were delivered as part of this transaction. As a result, the Company recorded a non-cash settlement loss of $25.7 million related to the accelerated recognition of unamortized losses.

During the first quarter of 2015, the Company completed the purchase of the remaining 51% of BERU Diesel Start Systems Pvt. Ltd. ("BERU Diesel") by acquiring the shares of its former joint venture partner. As a result of this transaction, the Company recorded a $10.8 million gain on the previously held equity interest in this joint venture. See the Recent Transactions footnote to the Consolidated Financial Statements for further discussion of this acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 4 INCOME TAXES

Earnings before income taxes and the provision for income taxes are presented in the following table.

	Year Ended December 31,		
(millions of dollars)	2017	2016	2015
Earnings before income taxes:			
U.S.	$203.0	$27.5	$74.2
Non-U.S.	860.6	915.2	801.2
Total	$1,063.6	$942.7	$875.4
Provision for income taxes:			
Current:			
Federal	$36.4	$37.4	$32.5
State	4.6	6.1	(4.3)
Foreign	247.4	251.7	228.3
Total current	288.4	295.2	256.5
Deferred:			
Federal	323.7	23.5	13.8
State	2.1	(0.8)	1.7
Foreign	(33.9)	(11.9)	(10.5)
Total deferred	291.9	10.8	5.0
Total provision for income taxes	$580.3	$306.0	$261.5

The provision for income taxes resulted in an effective tax rate of 54.6%, 32.5% and 29.9% for the years ended December 31, 2017, 2016 and 2015, respectively. An analysis of the differences between the effective tax rate and the U.S. statutory rate for the years ended December 31, 2017, 2016 and 2015 is presented below.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35 percent to 21 percent, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. As of December 31, 2017, in accordance with guidance provided by Staff Accounting Bulletin No. 118 (SAB 118), we have not completed our accounting for the tax effects of enactment of the Act. In certain cases, as described below, we have made a provisional estimate of significant items including: (i) the effects on our existing deferred tax balances, (ii) the one-time transition tax, and (iii) our indefinite reinvestment assertion, including the measurement of deferred taxes on foreign unremitted earnings. These provisional items require additional information and analysis to complete the accounting. Other items for which the accounting for the tax effects of the Act is complete are not significant. Items for which the accounting for the tax effects of the Act cannot be completed is not applicable.

The Act is complex and its impact may materially differ from these estimates, due to, among other things, changes in the Company's assumptions, implementation guidance that may be issued from the Internal Revenue Service and related interpretations and clarifications of tax law relevant for the completion of the Company's 2017 tax return filings. The Company expects to complete its assessment of these items during 2018, and any adjustments to the provisional amounts initially recorded, will be included as an adjustment to income tax expense or benefit in the period the amounts are determined, in accordance with SAB 118.

We recognized income tax expense of $273.5 million in the year ended December 31, 2017 for significant items we could reasonably estimate associated with the Act. This expense reflects (i) the revaluation of our net deferred tax assets based on a U.S. federal tax rate of 21 percent, (ii) a one-time transition tax on our unremitted foreign earnings and profits, net of foreign tax credits, and (iii) our indefinite reinvestment assertion, including the measurement of

deferred taxes on foreign unremitted earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In light of the treatment of foreign earnings under the Act, we have reconsidered our indefinite reinvestment position and provisionally concluded we will no longer assert indefinite reinvestment with respect to our foreign unremitted earnings. Therefore, the Company has accrued additional provisional deferred tax liabilities of $94.1 million with respect to the expected future remittance of foreign earnings.

The U.S. income tax payable of $25.1 million includes an estimated $23.6 million of transition tax, net of foreign tax credits associated with the required inclusion of unremitted foreign earnings and amounts carried forward from prior years. The estimated transition tax is due and payable annually over an eight year period beginning in the first quarter of 2018.

	Year Ended December 31,		
(millions of dollars)	2017	2016	2015
Income taxes at U.S. statutory rate of 35%	$372.3	$330.0	$306.4
Increases (decreases) resulting from:			
State taxes, net of federal benefit	2.3	1.8	7.3
U.S. tax on non-U.S. earnings	226.0	40.7	31.5
Affiliates' earnings	(17.9)	(15.0)	(14.0)
Foreign rate differentials	(100.2)	(93.3)	(92.6)
Tax holidays	(31.0)	(25.5)	(21.2)
Withholding taxes	24.9	13.3	7.8
Tax credits	(24.2)	(3.2)	(3.2)
Reserve adjustments, settlements and claims	8.0	11.6	19.4
Valuation allowance adjustments	12.2	(2.7)	8.3
Non-deductible transaction costs	10.9	8.3	8.1
Provision to return and other one-time tax adjustments	(1.9)	0.3	(5.1)
Impact of transactions	4.0	16.3	11.6
Currency	0.7	10.0	0.1
Other foreign taxes	8.1	12.9	9.0
Partnership income	3.3	3.4	3.1
Revaluation of U.S. deferred taxes	63.7	—	—
Other	19.1	(2.9)	(15.0)
Provision for income taxes, as reported	$580.3	$306.0	$261.5

The 2017 effective tax rate increased 22.1 percentage to 54.6%. The change in the effective tax rate for 2017, as compared to 2016, was primarily due to the Act. In addition to the transition tax, which results in a tax charge of $104.7 million, the Act also includes a reduction in the US income tax rate from 35% to 21%, as of January 1, 2018. This change in income tax rate requires a revaluation of our US deferred tax assets and liabilities at December 31, 2017, resulting in a tax charge of $ $63.7 million. The Company also included a tax charge of $94.1 million for additional provisional deferred tax liabilities with respect to the expected future remittance of foreign earnings.

The Company's provision for income taxes for the year ended December 31, 2017, includes reduction of income tax expenses of $10.1 million, $1.0 million, $18.2 million and $3.8 million related to the restructuring expense, merger and acquisition expense, asset impairment expense and other one-time adjustments, respectively, discussed in the Other Expense, Net footnote.

The Company's provision for income taxes for the year ended December 31, 2016, includes reduction of income tax expenses of $22.7 million, $8.6 million, $6.0 million and $4.4 million associated with a loss

75

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

on divestiture, other one-time adjustments, restructuring expense and intangible asset impairment loss, respectively, discussed in the Other Expense, Net footnote. The provision also includes additional tax expenses of $17.5 million associated with asbestos-related adjustments and $2.2 million associated with a gain on the release of certain Remy light vehicle aftermarket liabilities due to the expiration of a customer contract.

The Company's provision for income taxes for the year ended December 31, 2015, includes reduction of income tax expenses of $18.9 million, $9.0 million, $3.8 million and $3.7 million associated with asbestos-related adjustments, pension settlement loss, merger and acquisition expense and restructuring expense, respectively, discussed in the Other Expense, Net footnote. Additionally, this rate includes a tax benefit of $9.9 million primarily related to foreign tax incentives and tax settlements.

A roll forward of the Company's total gross unrecognized tax benefits for the years ended December 31, 2017 and 2016, respectively, is presented below. Of the total $85.1 million of unrecognized tax benefits as of December 31, 2017, approximately $62.4 million of the total represents the amount that, if recognized, would affect the Company's effective income tax rate in future periods. This amount differs from the gross unrecognized tax benefits presented in the table due to the decrease in the U.S. federal income taxes which would occur upon recognition of the state tax benefits and U.S. foreign tax credits included therein.

(millions of dollars)	2017	2016
Balance, January 1	$91.1	$127.3
Additions based on tax positions related to current year	16.8	16.1
Additions/(reductions) for tax positions of prior years	(2.4)	1.6
Reductions for closure of tax audits and settlements	(19.9)	(45.7)
Reductions for lapse in statute of limitations	(0.8)	(5.0)
Translation adjustment	7.2	(3.2)
Balance, December 31	$92.0	$91.1

Remy applied for a bilateral Advance Pricing Agreement ("APA") between the U.S. Internal Revenue Service and South Korea National Tax Service covering the tax years 2007 through 2014. At December 31, 2015, the Company recorded an uncertain tax benefit and related U.S. foreign tax credits of approximately $44.0 million. In the second quarter of 2016, the Company received the signed APA from the tax authorities and reclassified the related uncertain tax benefit to a current tax payable, which the Company paid in the third quarter of 2016.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The amount recognized in income tax expense for 2017 and 2016 is $6.4 million and $3.2 million, respectively. The Company has an accrual of approximately $22.6 million and $16.0 million for the payment of interest and penalties at December 31, 2017 and 2016, respectively. The Company estimates that payments of approximately $0.8 million will be made in the next 12 months for assessed tax liabilities from certain taxing jurisdictions and has reclassified this amount to current in the balance sheet as shown in the Balance Sheet Information footnote. Other possible changes within the next 12 months cannot be reasonably estimated at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company and/or one of its subsidiaries files income tax returns in the U.S. federal, various state jurisdictions and various foreign jurisdictions. In certain tax jurisdictions, the Company may have more than one taxpayer. The Company is no longer subject to income tax examinations by tax authorities in its major tax jurisdictions as follows:

Tax jurisdiction	Years no longer subject to audit	Tax jurisdiction	Years no longer subject to audit
U.S. Federal	2013 and prior	Japan	2015 and prior
China	2011 and prior	Mexico	2011 and prior
France	2013 and prior	Poland	2011 and prior
Germany	2011 and prior	South Korea	2011 and prior
Hungary	2008 and prior		

In the U.S., certain tax attributes created in years prior to 2013 were subsequently utilized. Even though the U.S. federal statute of limitations has expired for years prior to 2013, the years in which these tax attributes were created could still be subject to examination, limited to only the examination of the creation of the tax attribute.

The gross components of deferred tax assets and liabilities as of December 31, 2017 and 2016 consist of the following:

	December 31,	
(millions of dollars)	2017	2016
Deferred tax assets:		
Foreign tax credits	$—	$139.5
Employee compensation	26.4	41.3
Other comprehensive loss	54.5	66.3
Research and development capitalization	76.4	145.1
Net operating loss and capital loss carryforwards	74.6	71.5
Pension and other postretirement benefits	19.1	38.8
Asbestos-related	167.1	263.0
Other	146.6	128.9
Total deferred tax assets	$564.7	$894.4
Valuation allowance	(95.9)	(71.2)
Net deferred tax asset	$468.8	$823.2
Deferred tax liabilities:		
Goodwill and intangible assets	(193.9)	(251.3)
Fixed assets	(104.6)	(147.1)
Unremitted foreign earnings	(98.5)	(38.5)
Other	(12.0)	(16.5)
Total deferred tax liabilities	$(409.0)	$(453.4)
Net deferred taxes	$59.8	$369.8

At December 31, 2017, certain non-U.S. subsidiaries have net operating loss carryforwards totaling $168.9 million available to offset future taxable income. Of the total $168.9 million, $110.0 million expire at various dates from 2018 through 2036 and the remaining $58.9 million have no expiration date. The Company has a valuation allowance recorded against $88.0 million of the $168.9 million of non-U.S. net operating loss carryforwards. Certain U.S. subsidiaries have state net operating loss carryforwards totaling $791.1 million which are partially offset by a valuation allowance of $779.2 million. The state net operating loss carryforwards expire at various dates from 2018 to 2037. Certain U.S. subsidiaries also have state tax credit carryforwards of $19.7 million which are fully offset by a valuation allowance of $19.7 million. Certain non-U.S. subsidiaries located in China had tax exemptions or tax holidays, which reduced local tax expense

77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

approximately $31.0 million and $25.5 million in 2017 and 2016, respectively. The U.S. foreign tax credit carryforwards of $139.5 million from 2016 were fully utilized in 2017 as a result of the transition tax.

NOTE 5 BALANCE SHEET INFORMATION

Detailed balance sheet data is as follows:

	December 31,	
(millions of dollars)	2017	2016
Receivables, net:		
Customers	$1,735.7	$1,448.3
Indirect taxes	152.1	99.1
Other	136.8	144.8
Gross receivables	2,024.6	1,692.2
Bad debt allowance(a)	(5.7)	(2.9)
Total receivables, net	$2,018.9	$1,689.3
Inventories, net:		
Raw material and supplies	$469.7	$378.6
Work in progress	126.7	102.9
Finished goods	183.0	174.9
FIFO inventories	779.4	656.4
LIFO reserve	(13.1)	(15.2)
Total inventories, net	$766.3	$641.2
Prepayments and other current assets:		
Prepaid tooling	$81.9	$77.5
Prepaid taxes	5.3	8.0
Other	58.2	51.9
Total prepayments and other current assets	$145.4	$137.4
Property, plant and equipment, net:		
Land and land use rights	$115.7	$111.0
Buildings	783.5	670.6
Machinery and equipment	2,734.4	2,371.2
Capital leases	1.5	3.9
Construction in progress	410.5	338.2
Property, plant and equipment, gross	4,045.6	3,494.9
Accumulated depreciation	(1,391.7)	(1,137.5)
Property, plant & equipment, net, excluding tooling	2,653.9	2,357.4
Tooling, net of amortization	209.9	144.4
Property, plant & equipment, net	$2,863.8	$2,501.8
Investments and other long-term receivables:		
Investment in equity affiliates	$239.6	$218.9
Other long-term receivables	307.8	283.3
Total investments and other long-term receivables	$547.4	$502.2
Other non-current assets:		
Deferred income taxes	$121.2	$424.0
Asbestos insurance asset	127.7	178.7
Other	209.8	150.7
Total other non-current assets	$458.7	$753.4

78

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31,	
(millions of dollars)	2017	2016
Accounts payable and accrued expenses:		
Trade payables	$1,545.6	$1,259.4
Payroll and employee related	239.7	206.4
Indirect taxes	111.0	63.9
Product warranties	69.0	63.9
Customer related	75.7	52.8
Asbestos-related liability	52.5	51.7
Interest	22.9	22.9
Retirement related	17.2	18.1
Dividends payable to noncontrolling shareholders	17.7	15.7
Unrecognized tax benefits	0.8	15.5
Insurance	10.1	7.8
Severance	5.8	6.4
Derivatives	5.0	1.2
Other	97.3	61.6
Total accounts payable and accrued expenses	$2,270.3	$1,847.3
Other non-current liabilities:		
Deferred income taxes	$61.4	$54.2
Deferred revenue	52.4	33.5
Product warranties	42.5	31.4
Other	199.2	156.6
Total other non-current liabilities	$355.5	$275.7

(a) Bad debt allowance:	2017	2016	2015
Beginning balance, January 1	$(2.9)	$(1.9)	$(2.3)
Provision	(2.7)	(3.2)	(0.5)
Write-offs	0.1	0.2	0.7
Business divestiture	—	2.0	—
Translation adjustment and other	(0.2)	—	0.2
Ending balance, December 31	$(5.7)	$(2.9)	$(1.9)

As of December 31, 2017 and December 31, 2016, accounts payable of $106.5 million and $85.3 million, respectively, were related to property, plant and equipment purchases.

Interest costs capitalized for the years ended December 31, 2017, 2016 and 2015 were $19.7 million, $14.1 million and $16.5 million, respectively.

NSK-Warner KK ("NSK-Warner")

The Company has a 50% interest in NSK-Warner, a joint venture based in Japan that manufactures automatic transmission components. The Company's share of the earnings reported by NSK-Warner is accounted for using the equity method of accounting. NSK-Warner is the joint venture partner with a 40% interest in the Drivetrain Segment's South Korean subsidiary, BorgWarner Transmission Systems Korea Ltd. Dividends from NSK-Warner were $20.2 million, $34.3 million and $18.0 million in calendar years ended December 31, 2017, 2016 and 2015, respectively.

79

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NSK-Warner has a fiscal year-end of March 31. The Company's equity in the earnings of NSK-Warner consists of the 12 months ended November 30. Following is summarized financial data for NSK-Warner, translated using the ending or periodic rates, as of and for the years ended November 30, 2017, 2016 and 2015 (unaudited):

	November 30,	
(millions of dollars)	2017	2016
Balance sheets:		
Cash and securities	$104.6	$98.6
Current assets, including cash and securities	289.2	256.3
Non-current assets	231.9	194.5
Current liabilities	154.9	122.6
Non-current liabilities	68.1	48.2
Total equity	298.1	280.0

	Year Ended November 30,		
(millions of dollars)	2017	2016	2015
Statements of operations:			
Net sales	$669.6	$601.8	$519.0
Gross profit	149.2	134.1	118.6
Net earnings	85.2	71.7	73.3

NSK-Warner had no debt outstanding as of November 30, 2017 and 2016. Purchases by the Company from NSK-Warner were $12.3 million, $23.9 million and $23.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 6 GOODWILL AND OTHER INTANGIBLES

During the fourth quarter of each year, the Company qualitatively assesses its goodwill and indefinite-lived intangible assets assigned to each of its reporting units. This qualitative assessment evaluates various events and circumstances, such as macro economic conditions, industry and market conditions, cost factors, relevant events and financial trends, that may impact a reporting unit's fair value. Using this qualitative assessment, the Company determines whether it is more-likely-than-not the reporting unit's fair value exceeds its carrying value. If it is determined that it is not more-likely-than-not the reporting unit's fair value exceeds the carrying value, or upon consideration of other factors, including recent acquisition, restructuring or divestiture activity, the Company performs a quantitative, "step one," goodwill impairment analysis. In addition, the Company may test goodwill in between annual test dates if an event occurs or circumstances change that could more-likely-than-not reduce the fair value of a reporting unit below its carrying value.

During the fourth quarter of 2017, the Company performed an analysis on each reporting unit. For the reporting unit with restructuring activities, the Company performed a quantitative, "step one," goodwill impairment analysis, which requires the Company to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The basis of this goodwill impairment analysis is the Company's annual budget and long-range plan (“LRP”). The annual budget and LRP includes a five year projection of future cash flows based on actual new products and customer commitments and assumes the last year of the LRP data is a fair indication of the future performance. Because the LRP is estimated over a significant future period of time, those estimates and assumptions are subject to a high degree of uncertainty. Further, the market valuation models and other financial ratios

used by the Company require certain assumptions and estimates regarding the applicability of those models to the Company's facts and circumstances.

80

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company believes the assumptions and estimates used to determine the estimated fair value are reasonable. Different assumptions could materially affect the estimated fair value. The primary assumptions affecting the Company's December 31, 2017 goodwill quantitative, "step one," impairment review are as follows:

- Discount rate: The Company used a 10.4% weighted average cost of capital (“WACC”) as the discount rate for future cash flows. The WACC is intended to represent a rate of return that would be expected by a market participant.

- Operating income margin: The Company used historical and expected operating income margins, which may vary based on the projections of the reporting unit being evaluated.

- Revenue growth rate: The Company used a global automotive market industry growth rate forecast adjusted to estimate its own market participation for product lines.

In addition to the above primary assumptions, the Company notes the following risks to volume and operating income assumptions that could have an impact on the discounted cash flow models:

- The automotive industry is cyclical and the Company's results of operations would be adversely affected by industry downturns.
- The Company is dependent on market segments that use our key products and would be affected by decreasing demand in those segments.
- The Company is subject to risks related to international operations.

Based on the assumptions outlined above, the impairment testing conducted in the fourth quarter of 2017 indicated the Company's goodwill assigned to the reporting unit with restructuring activity that was quantitatively assessed was not impaired and contained a fair value that exceeded the reporting unit's carrying value by more than 20%. Additionally, for the reporting unit quantitatively assessed, sensitivity analyses were completed indicating that a one percent increase in the discount rate, a one percent decrease in the operating margin, or a one percent decrease in the revenue growth rate assumptions would not result in the carrying value exceeding the fair value.

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
(millions of dollars)	Engine	Drivetrain	Engine	Drivetrain
Gross goodwill balance, January 1	$1,324.0	$880.2	$1,338.2	$ 921.5
Accumulated impairment losses, January 1	(501.8)	(0.2)	(501.8)	(0.2)
Net goodwill balance, January 1	$822.2	$880.0	$836.4	$ 921.3
Goodwill during the year:				
Acquisitions*	—	125.8	—	(12.1)
Held for sale	(7.3)	—	—	—
Divestitures**	—	—	—	(24.2)
Translation adjustment and other	42.9	18.2	(14.2)	(5.0)
Ending balance, December 31	$857.8	$1,024.0	$822.2	$ 880.0

---

* Acquisitions during 2017 relate to the Company's 2017 purchase of Sevcon. Acquisitions during 2016 were related to the Company's fair value adjustments for the 2015 Remy acquisition, based on new information obtained during the measurement period.

** Divestitures relate to the Company's 2016 disposition of Remy light vehicle aftermarket business and Divgi-Warner Private Limited.

81

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company’s other intangible assets, primarily from acquisitions, consist of the following:

(millions of dollars)	December 31, 2017			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:						
Patented and unpatented technology	$157.7	$ 52.9	$104.8	$108.1	$ 41.5	$66.6
Customer relationships	507.6	181.0	326.6	481.4	141.2	340.2
Miscellaneous	4.9	3.2	1.7	5.3	3.4	1.9
Total amortized intangible assets	670.2	237.1	433.1	594.8	186.1	408.7
In-process R&D	3.8	—	3.8	3.8	—	3.8
Unamortized trade names	55.8	—	55.8	51.0	—	51.0
Total other intangible assets	$729.8	$ 237.1	$492.7	$649.6	$ 186.1	$463.5

Amortization of other intangible assets was $40.0 million, $40.4 million and $19.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. The estimated useful lives of the Company's amortized intangible assets range from three to 20 years. The Company utilizes the straight line method of amortization recognized over the estimated useful lives of the assets. The estimated future annual amortization expense, primarily for acquired intangible assets, is as follows: $44.3 million in 2018, $43.3 million in 2019, $42.5 million in 2020, $42.2 million in 2021 and $40.9 million in 2022.

A roll forward of the gross carrying amounts of the Company's other intangible assets is presented below:

(millions of dollars)	2017	2016
Beginning balance, January 1	$649.6	$705.3
Acquisitions*	72.6	—
Held for sale	(32.7)	—
Impairment**	—	(23.9)
Divestitures***	—	(19.9)
Translation adjustment	40.3	(11.9)
Ending balance, December 31	$729.8	$649.6

____

* Acquisitions primarily relate to the Company's 2017 purchase of Sevcon.
** Relates to the impairment of the Company's Etatech ECCOS intellectual technology in 2016.
*** Divestiture relates to the Company's sale of Remy light vehicle aftermarket business in 2016.

A roll forward of the accumulated amortization associated with the Company's other intangible assets is presented below:

(millions of dollars)	2017	2016
Beginning balance, January 1	$186.1	$161.5
Amortization	40.0	40.4
Held for sale	(11.6)	—
Impairment	—	(8.2)
Divestitures	—	(0.3)
Translation adjustment	22.6	(7.3)
Ending balance, December 31	$237.1	$186.1

82

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 7 PRODUCT WARRANTY

The changes in the carrying amount of the Company's total product warranty liability for the years ended December 31, 2017 and 2016 were as follows:

(millions of dollars)	2017	2016
Beginning balance, January 1	$95.3	$107.9
Provisions	73.1	62.2
Acquisitions	1.0	6.9
Dispositions	—	(9.1)
Held for sale	(3.6)	—
Payments	(60.6)	(70.1)
Translation adjustment	6.3	(2.5)
Ending balance, December 31	$111.5	$95.3

Acquisition activity in 2017 of $1.0 million relates to the warranty liability associated with the Company's purchase of Sevcon.

Acquisition activity in 2016 of $6.9 million relates to the Company's accrual for product issues that pre-dated the Company's 2015 acquisition of Remy. Disposition activity in 2016 of $9.1 million relates to the sale of the Remy light vehicle aftermarket business.

The product warranty liability is classified in the Consolidated Balance Sheets as follows:

	December 31,	
(millions of dollars)	2017	2016
Accounts payable and accrued expenses	$69.0	$63.9
Other non-current liabilities	42.5	31.4
Total product warranty liability	$111.5	$95.3

NOTE 8 NOTES PAYABLE AND LONG-TERM DEBT

As of December 31, 2017 and 2016, the Company had short-term and long-term debt outstanding as follows:

	December 31,	
(millions of dollars)	2017	2016
Short-term debt		
Short-term borrowings	$68.8	$156.5
Long-term debt		
8.00% Senior notes due 10/01/19 ($134 million par value)	137.4	139.1
4.625% Senior notes due 09/15/20 ($250 million par value)	251.4	251.9
1.80% Senior notes due 11/7/22 (€500 million par value)	595.7	520.7
3.375% Senior notes due 03/15/25 ($500 million par value)	496.1	495.6
7.125% Senior notes due 02/15/29 ($121 million par value)	118.9	118.8
4.375% Senior notes due 03/15/45 ($500 million par value)	493.5	493.3
Term loan facilities and other	26.5	43.6
Total long-term debt	$2,119.5	$2,063.0
Less: current portion	15.8	19.4
Long-term debt, net of current portion	$2,103.7	$2,043.6

83

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In July 2016, the Company terminated interest rate swaps which had the effect of converting $384 million of fixed rate notes to variable rates. The gain on the termination is being amortized into interest expense over the remaining terms of the notes. The value related to these swap terminations as of December 31, 2017 was $2.9 million and $0.8 million on the 4.625% and 8.00% notes, respectively, as an increase to the notes. The value of these interest rate swaps as of December 31, 2016 was $3.9 million and $1.3 million on the 4.625% and 8.00% notes, respectively, as a decrease to the notes.

The Company terminated fixed to floating interest rate swaps in 2009. The gain on the termination is being amortized into interest expense over the remaining term of the note. The value related to this swap termination at December 31, 2017 was $2.7 million on the 8.00% note as an increase to the note. The value related to these swap terminations at December 31, 2016 was $4.1 million on the 8.00% note as an increase to the note.

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2017 and 2016 was 3.1% and 2.3%, respectively. The weighted average interest rate on all borrowings outstanding, including the effects of outstanding swaps, as of December 31, 2017 and 2016 was 3.8%.

Annual principal payments required as of December 31, 2017 are as follows :

(millions of dollars)	
2018	$84.6
2019	138.7
2020	252.7
2021	2.7
2022	600.4
After 2022	1,121.0
Total payments	$2,200.1
Less: unamortized discounts	11.8
Total	$2,188.3

The Company's long-term debt includes various covenants, none of which are expected to restrict future operations.

On June 29, 2017, the Company amended and extended its $1 billion multi-currency revolving credit facility (which included a feature that allowed the Company's borrowings to be increased to $1.25 billion) to a $1.2 billion multi-currency revolving credit facility (which includes a feature that allows the Company's borrowings to be increased to $1.5 billion). The facility provides for borrowings through June 29, 2022. The Company has one key financial covenant as part of the credit agreement which is a debt to EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization") ratio. The Company was in compliance with the financial covenant at December 31, 2017 and expects to remain compliant in future periods. At December 31, 2017 and December 31, 2016, the Company had no outstanding borrowings under this facility.

The Company's commercial paper program allows the Company to issue short-term, unsecured commercial paper notes up to a maximum aggregate principal amount outstanding, which increased from $1.0 billion to $1.2 billion effective July 26, 2017. Under this program, the Company may issue notes from time to time and will use the proceeds for general corporate purposes. At December 31, 2017, the Company had no outstanding borrowings under this program. As of December 31, 2016, the Company had outstanding borrowings of $50.8 million under this program, which is classified in the Condensed Consolidated Balance Sheets in Notes payable and other short-term debt.

84

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The total current combined borrowing capacity under the multi-currency revolving credit facility and commercial paper program cannot exceed $1.2 billion.

As of December 31, 2017 and 2016, the estimated fair values of the Company's senior unsecured notes totaled $2,209.1 million and $2,081.4 million, respectively. The estimated fair values were $116.1 million and $62.0 million higher than their carrying value at December 31, 2017 and 2016, respectively. Fair market values of the senior unsecured notes are developed using observable values for similar debt instruments, which are considered Level 2 inputs as defined by ASC Topic 820. The carrying values of the Company's multi-currency revolving credit facility and commercial paper program approximates fair value. The fair value estimates do not necessarily reflect the values the Company could realize in the current markets.

The Company had outstanding letters of credit of $31.4 million and $32.3 million at December 31, 2017 and 2016, respectively. The letters of credit typically act as guarantees of payment to certain third parties in accordance with specified terms and conditions.

NOTE 9 FAIR VALUE MEASUREMENTS

ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC Topic 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;
Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in ASC Topic 820:

A. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets or liabilities, such as a business.
B. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
C. Income approach: Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables classify assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

(millions of dollars)	Balance at December 31, 2017	Basis of fair value measurements Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation technique
Assets:					
Foreign currency contracts	$ 1.7	$ —	$ 1.7	$ —	A
Other long-term receivables (insurance settlement agreement note receivable)	$ 42.9	$ —	$ 42.9	$ —	C
Liabilities:					
Foreign currency contracts	$ 5.0	$ —	$ 5.0	$ —	A

(millions of dollars)	Balance at December 31, 2016	Basis of fair value measurements Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation technique
Assets:					
Commodity contracts	$ 0.1	$ —	$ 0.1	$ —	A
Foreign currency contracts	$ 7.2	$ —	$ 7.2	$ —	A
Other long-term receivables (insurance settlement agreement note receivable)	$ 71.5	$ —	$ 71.5	$ —	C
Liabilities:					
Foreign currency contracts	$ 1.1	$ —	$ 1.1	$ —	A

The following tables classify the Company's defined benefit plan assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

(millions of dollars)	Balance at December 31, 2017	Basis of fair value measurements Quoted prices in active markets	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation technique	Assets measured at NAV (a)

		for identical items (Level 1)				
U.S. Plans:						
Fixed income securities	$ 127.1	$1.3	$ —	$	—A	125.8
Equity securities	86.7	13.5	—	—	A	73.2
Real estate and other	26.3	19.9	0.4	—	A	6.0
	$ 240.1	$34.7	$ 0.4	$	—	$ 205.0
Non-U.S. Plans:						
Fixed income securities	$ 212.4	$—	$ —	$	—A	212.4
Equity securities	233.9	105.4	—	—	A	128.5
Real estate and other	37.1	—	—	—	A	37.1
	$ 483.4	$105.4	$ —	$	—	$ 378.0

86

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(millions of dollars)	Balance at December 31, 2016	Basis of fair value measurements Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation technique	Assets measured at NAV (a)
U.S. Plans:						
Fixed income securities	$ 113.8	$15.3	$ —	$ —	A	98.5
Equity securities	94.2	37.2	—	—	A	57.0
Real estate and other	21.5	13.1	0.5	—	A	7.9
	$ 229.5	$65.6	$ 0.5	$ —		$ 163.4
Non-U.S. Plans:						
Fixed income securities	$ 183.4	$—	$ —	$ —	A	183.4
Equity securities	190.8	87.1	—	—	A	103.7
Real estate and other	19.6	—	—	—	A	19.6
	$ 393.8	$87.1	$ —	$ —		$ 306.7

(a) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. These amounts represent investments in commingled and managed funds which have underlying assets in fixed income securities, equity securities, and other assets.

Refer to the Retirement Benefit Plans footnote to the Consolidated Financial Statements for more detail surrounding the defined plan's asset investment policies and strategies, target allocation percentages and expected return on plan asset assumptions.

NOTE 10 FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and marketable securities. Due to the short-term nature of these instruments, their book value approximates their fair value. The Company's financial instruments may include long-term debt, interest rate and cross-currency swaps, commodity derivative contracts and foreign currency derivatives. All derivative contracts are placed with counterparties that have an S&P, or equivalent, investment grade credit rating at the time of the contracts' placement. At December 31, 2017 and 2016, the Company had no derivative contracts that contained credit risk related contingent features.

The Company uses certain commodity derivative contracts to protect against commodity price changes related to forecasted raw material and supplies purchases. The Company primarily utilizes forward and option contracts, which are designated as cash flow hedges. At December 31, 2017, there were no commodity derivative contracts outstanding:

Commodity	Commodity derivative contracts Volume hedged December 31, 2016	Units of measure	Duration

	2017		
Copper	—213.8	Metric Tons	—

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to optimize its interest costs. The Company selectively uses interest rate swaps to reduce market value risk associated with changes in interest rates (fair value hedges). At December 31, 2017 and December 31, 2016, the Company had no outstanding interest rate swaps.

87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company uses foreign currency forward and option contracts to protect against exchange rate movements for forecasted cash flows, including capital expenditures, purchases, operating expenses or sales transactions designated in currencies other than the functional currency of the operating unit. In addition, the Company uses foreign currency forward contracts to hedge exposure associated with our net investment in certain foreign operations (net investment hedges). The Company has also designated its Euro denominated debt as a net investment hedge of the Company's investment in a European subsidiary. Foreign currency derivative contracts require the Company, at a future date, to either buy or sell foreign currency in exchange for the operating units' local currency. At December 31, 2017 and December 31, 2016, the following foreign currency derivative contracts were outstanding:

Foreign currency derivatives (in millions)

Functional currency	Traded currency	Notional in traded currency December 31, 2017	Notional in traded currency December 31, 2016	Ending Duration
Brazilian real	Euro	1.1	—	Apr - 18
Chinese renminbi	Euro	18.6	—	Jun - 18
Chinese renminbi	US dollar	36.0	33.5	Sept - 18
Euro	British pound	3.9	4.2	Dec - 18
Euro	Chinese renminbi	85.0	—	Dec - 18
Euro	Japanese yen	1,311.3	1,004.8	Dec - 18
Euro	Polish zloty	—	18.8	Dec - 17
Euro	Swedish krona	267.4	—	May - 18
Euro	US dollar	56.5	35.3	Mar - 19
Japanese yen	Chinese renminbi	—	68.7	Dec - 17
Japanese yen	Korean won	—	5,689.2	Dec - 17
Japanese yen	US dollar	—	2.0	Dec - 17
Korean won	Euro	3.1	—	Dec - 18
Korean won	Japanese yen	619.0	539.9	Dec - 18
Korean won	US dollar	11.2	14.2	Dec - 18
Mexican peso	US dollar	—	10.5	Dec - 17
Swedish krona	Euro	109.7	48.2	Jan - 20
US dollar	Euro	42.0	—	Dec - 18

At December 31, 2017 and 2016, the following amounts were recorded in the Consolidated Balance Sheets as being payable to or receivable from counterparties under ASC Topic 815:

	Assets			Liabilities		
(millions of dollars)	Location	December 31, 2017	December 31, 2016	Location	December 31, 2017	December 31, 2016
Foreign currency	Prepayments and other current assets	$ 0.9	$ 7.2	Accounts payable and accrued expenses	$ 5.0	$ 1.1
	Other non-current assets	$ 0.8	$ —	Other non-current liabilities	$ —	$ —
Commodity	Prepayments and other current assets	$ —	$ 0.1	Accounts payable and accrued expenses	$ —	$ —

Effectiveness for cash flow and net investment hedges is assessed at the inception of the hedging relationship and quarterly, thereafter. To the extent that derivative instruments are deemed to be effective, gains and losses arising from these contracts are deferred into accumulated other comprehensive income (loss) ("AOCI") and reclassified into income as the underlying operating transactions are recognized. These realized gains or losses offset the hedged

transaction and are recorded on the same line in the statement of operations. To the extent that derivative instruments are deemed to be ineffective, gains or losses are recognized into income.

88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The table below shows deferred gains (losses) reported in AOCI, as well as the amount expected to be reclassified to income in one year or less. The amount expected to be reclassified to income in one year or less assumes no change in the current relationship of the hedged item at December 31, 2017 market rates.

(millions of dollars)	Deferred gain (loss) in AOCI at December 31, 2017	December 31, 2016	Gain (loss) expected to be reclassified to income in one year or less
Foreign currency	$(2.3)	$ 5.6	$ (3.1)
Commodity	—	(0.1)	—
Net investment hedges	(54.2)	29.5	—
Total	$(56.5)	$ 35.0	$ (3.1)

Derivative instruments designated as hedging instruments as defined by ASC Topic 815 held during the period resulted in the following gains and losses recorded in income:

		Gain (loss) reclassified from AOCI to income (effective portion)			Gain (loss) recognized in income (ineffective portion)	
		Year Ended December 31,			Year Ended December 31,	
(millions of dollars)	Location	2017	2016	Location	2017	2016
Foreign currency	Sales	$3.4	$(0.1)	SG&A expense	$—	$0.3
Foreign currency	Cost of goods sold	$(0.1)	$1.4	SG&A expense	$(0.1)	$—
Commodity	Cost of goods sold	$0.5	$(1.4)	Cost of goods sold	$—	$(0.3)

(millions of dollars)		Year Ended December 31, 2017		2016	
Contract Type	Location	Gain (loss) on swaps	Gain (loss) on borrowings	Gain (loss) on swaps	Gain (loss) on borrowings
Interest rate swap	Interest expense and finance charges	$—	$ —	$8.5	$ (8.5)

At December 31, 2017 and 2016, derivative instruments that were not designated as hedging instruments as defined by ASC Topic 815 were immaterial.

NOTE 11 RETIREMENT BENEFIT PLANS

The Company sponsors various defined contribution savings plans, primarily in the U.S., that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will make contributions to the plans and/or match a percentage of the employee contributions up to certain limits. Total expense related to the defined contribution plans was $33.5 million, $28.3 million and $28.0 million in the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has a number of defined benefit pension plans and other postretirement employee benefit plans covering eligible salaried and hourly employees and their dependents. The defined pension benefits provided are primarily based on (i) years of service and (ii) average compensation or a monthly retirement benefit amount. The Company provides defined benefit pension plans in France, Germany, Ireland, Italy, Japan, Mexico, Monaco, South Korea, Sweden, U.K. and the U.S. The other postretirement employee benefit plans, which provide medical benefits, are unfunded plans. All pension and other postretirement employee benefit plans in the U.S. have been closed to new employees. The measurement date for all plans is December 31.

During the fourth quarter of 2015, the Company settled approximately $48 million of its projected benefit obligation by transferring approximately $48 million in plan assets through a lump-sum pension de-risking disbursement made to an insurance company. This agreement unconditionally and irrevocably guarantees

---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

all future payments to certain participants that were receiving payments from the U.S. pension plan. The insurance company assumes all investment risk associated with the assets that were delivered as part of this transaction. As a result, the Company recorded a non-cash settlement loss of $25.7 million related to the accelerated recognition of unamortized losses.

The following table summarizes the expenses for the Company's defined contribution and defined benefit pension plans and the other postretirement defined employee benefit plans.

	Year Ended December 31,		
(millions of dollars)	2017	2016	2015
Defined contribution expense	$33.5	$28.3	$28.0
Defined benefit pension expense	12.5	10.1	35.5
Other postretirement employee benefit expense	0.5	1.4	3.3
Total	$46.5	$39.8	$66.8

90

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following provides a roll forward of the plans' benefit obligations, plan assets, funded status and recognition in the Consolidated Balance Sheets.

	Pension benefits				Other postretirement employee benefits	
	Year Ended December 31,				Year Ended December 31,	
	2017		2016			
(millions of dollars)	US	Non-US	US	Non-US	2017	2016
Change in projected benefit obligation:						
Projected benefit obligation, January 1	$282.5	$528.2	$300.7	$508.5	$119.9	$145.3
Service cost	—	18.0	—	16.2	0.1	0.2
Interest cost	8.9	11.0	9.6	12.5	3.2	4.0
Plan participants' contributions	—	0.3	—	0.4	—	—
Plan amendments	—	—	—	0.2	(0.7)	—
Settlement and curtailment	—	(3.7)	—	(1.3)	—	—
Actuarial loss (gain)	8.7	(7.8)	(5.7)	70.2	2.2	(14.4)
Currency translation	—	63.4	—	(45.3)	—	—
Acquisition (divestiture)	4.0	37.0	—	(12.8)	—	—
Benefits paid	(20.8)	(17.6)	(22.1)	(20.4)	(17.7)	(15.2)
Projected benefit obligation, December 31	$283.3	$628.8	$282.5	$528.2	$107.0	$119.9
Change in plan assets:						
Fair value of plan assets, January 1	$229.5	$393.8	$235.8	$395.1		
Actual return on plan assets	23.5	30.7	12.7	54.0		
Employer contribution	4.0	14.3	2.7	17.0		
Plan participants' contribution	—	0.3	—	0.4		
Settlements	—	(3.6)	—	(1.3)		
Currency translation	—	46.8	—	(40.8)		
Acquisition (divestiture)	3.8	18.1	—	(10.2)		
Other	—	0.6	—	—		
Benefits paid	(20.7)	(17.6)	(21.7)	(20.4)		
Fair value of plan assets, December 31	$240.1	$483.4	$229.5	$393.8		
Funded status	$(43.2)	$(145.4)	$(53.0)	$(134.4)	$(107.0)	$(119.9)
Amounts in the Consolidated Balance Sheets consist of:						
Non-current assets	$—	$23.2	$—	$4.9	$—	$—
Current liabilities	(0.1)	(3.9)	(0.1)	(3.5)	(13.2)	(14.5)
Non-current liabilities	(43.1)	(164.7)	(52.9)	(135.8)	(93.8)	(105.4)
Net amount	$(43.2)	$(145.4)	$(53.0)	$(134.4)	$(107.0)	$(119.9)
Amounts in accumulated other comprehensive loss consist of:						
Net actuarial loss	$111.0	$159.0	$116.9	$163.7	$20.8	$19.9
Net prior service (credit) cost	(6.6)	0.8	(7.4)	0.8	(15.8)	(19.2)
Net amount*	$104.4	$159.8	$109.5	$164.5	$5.0	$0.7
Total accumulated benefit obligation for all plans	$283.3	$602.0	$282.5	$505.5		

---

* AOCI shown above does not include our equity investee, NSK-Warner. NSK-Warner had an AOCI loss of $9.7 million and $10.8 million at December 31, 2017 and 2016, respectively.

91

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The funded status of pension plans with accumulated benefit obligations in excess of plan assets at December 31 is as follows:

	December 31,	
(millions of dollars)	2017	2016
Accumulated benefit obligation	$(681.2)	$(594.0)
Plan assets	494.8	423.3
Deficiency	$(186.4)	$(170.7)
Pension deficiency by country:		
United States	$(43.2)	$(53.0)
Germany	(75.7)	(77.5)
Other	(67.5)	(40.2)
Total pension deficiency	$(186.4)	$(170.7)

The weighted average asset allocations of the Company's funded pension plans and target allocations by asset category are as follows:

	December 31,		Target Allocation
	2017	2016	
U.S. Plans:			
Real estate and other	11 %	9 %	0% - 15%
Fixed income securities	53 %	50 %	45% - 65%
Equity securities	36 %	41 %	25% - 45%
	100%	100%	
Non-U.S. Plans:			
Real estate and other	8 %	5 %	0% - 10%
Fixed income securities	44 %	47 %	43% - 53%
Equity securities	48 %	48 %	46% - 56%
	100%	100%	

The Company's investment strategy is to maintain actual asset weightings within a preset range of target allocations. The Company believes these ranges represent an appropriate risk profile for the planned benefit payments of the plans based on the timing of the estimated benefit payments. In each asset category, separate portfolios are maintained for additional diversification. Investment managers are retained in each asset category to manage each portfolio against its benchmark. Each investment manager has appropriate investment guidelines. In addition, the entire portfolio is evaluated against a relevant peer group. The defined benefit pension plans did not hold any Company securities as investments as of December 31, 2017 and 2016. A portion of pension assets is invested in common and commingled trusts.

The Company expects to contribute a total of $15 million to $25 million into its defined benefit pension plans during 2018. Of the $15 million to $25 million in projected 2018 contributions, $3.5 million are contractually obligated, while any remaining payments would be discretionary.

Refer to the Fair Value Measurements footnote to the Consolidated Financial Statements for more detail surrounding the fair value of each major category of plan assets, as well as the inputs and valuation techniques used to develop the fair value measurements of the plans' assets at December 31, 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

See the table below for a breakout of net periodic benefit cost between U.S. and non-U.S. pension plans:

	Pension benefits						Other postretirement employee benefits		
	Year Ended December 31,						Year Ended December 31,		
	2017		2016		2015				
(millions of dollars)	US	Non-US	US	Non-US	US	Non-US	2017	2016	2015
Service cost	$—	$ 18.0	$—	$ 16.2	$—	$ 14.9	$0.1	$0.2	$0.2
Interest cost	8.9	11.0	9.6	12.5	11.2	14.1	3.2	4.0	5.7
Expected return on plan assets	(13.2)	(23.8)	(15.0)	(24.3)	(17.0)	(24.8)	—	—	—
Settlements, curtailments and other	—	0.3	—	—	25.7	(0.8)	—	—	—
Amortization of unrecognized prior service (credit) cost	(0.8)	—	(0.8)	0.6	(0.8)	0.1	(4.1)	(4.9)	(5.7)
Amortization of unrecognized loss	4.2	7.9	5.1	6.2	6.3	6.6	1.3	2.1	3.1
Net periodic (income) cost	$(0.9)	$ 13.4	$(1.1)	$ 11.2	$25.4	$ 10.1	$0.5	$1.4	$3.3

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $11.2 million. The estimated net loss and prior service credit for the other postretirement employee benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $1.2 million and $4.1 million, respectively.

The Company's weighted-average assumptions used to determine the benefit obligations for its defined benefit pension and other postretirement employee benefit plans as of December 31, 2017 and 2016 were as follows:

	December 31,	
(percent)	2017	2016
U.S. pension plans:		
Discount rate	3.55	3.94
Rate of compensation increase	N/A	N/A
U.S. other postretirement employee benefit plans:		
Discount rate	3.32	3.61
Rate of compensation increase	N/A	N/A
Non-U.S. pension plans:		
Discount rate	2.25	2.25
Rate of compensation increase	2.98	3.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's weighted-average assumptions used to determine the net periodic benefit cost for its defined benefit pension and other postretirement employee benefit plans for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Year Ended December 31,		
(percent)	2017	2016	2015
U.S. pension plans:			
Discount rate	3.94	4.15	3.89
Rate of compensation increase	N/A	N/A	N/A
Expected return on plan assets	6.01	6.70	6.71
U.S. other postretirement plans:			
Discount rate	3.61	3.84	3.50
Rate of compensation increase	N/A	N/A	N/A
Expected return on plan assets	N/A	N/A	N/A
Non-U.S. pension plans:			
Discount rate	2.25	2.99	2.84
Rate of compensation increase	3.00	3.01	2.84
Expected return on plan assets	5.68	6.41	6.53

The Company's approach to establishing the discount rate is based upon the market yields of high-quality corporate bonds, with appropriate consideration of each plan's defined benefit payment terms and duration of the liabilities. In determining the discount rate, the Company utilizes a full yield approach in the estimation of service and interest components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

The Company determines its expected return on plan asset assumptions by evaluating estimates of future market returns and the plans' asset allocation. The Company also considers the impact of active management of the plans' invested assets.

The estimated future benefit payments for the pension and other postretirement employee benefits are as follows:

(millions of dollars)	Pension benefits		Other postretirement employee benefits
Year	U.S.	Non-U.S.	
2018	$22.2	$ 20.0	$ 13.3
2019	19.5	20.5	12.2
2020	19.4	21.4	11.7
2021	19.3	22.4	10.6
2022	18.5	23.6	9.6
2023-2027	87.2	130.8	34.2

The weighted-average rate of increase in the per capita cost of covered health care benefits is projected to be 6.75% in 2018 for pre-65 and post-65 participants, decreasing to 5.0% by the year 2025. A one-percentage point change in the assumed health care cost trend would have the following effects:

One Percentage Point

(millions of dollars)	Increase	Decrease
Effect on other postretirement employee benefit obligation	$7.1	$ (6.3)
Effect on total service and interest cost components	$0.2	$ (0.2)

94

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 12 STOCK-BASED COMPENSATION

Under the Company's 2004 Stock Incentive Plan ("2004 Plan"), the Company granted options to purchase shares of the Company's common stock at the fair market value on the date of grant. The options vested over periods up to three years and have a term of 10 years from date of grant. At its November 2007 meeting, the Company's Compensation Committee decided that restricted common stock awards and stock units ("restricted stock") would be awarded in place of stock options for long-term incentive award grants to employees. Restricted stock granted to employees generally vests 50% after two years and the remainder after three years from the date of grant. Restricted stock granted to non-employee directors generally vests on the first anniversary date of the grant. In February 2014, the Company's Board of Directors replaced the expired 2004 Plan by adopting the BorgWarner Inc. 2014 Stock Incentive Plan ("2014 Plan"). On April 30, 2014, the Company's stockholders approved the 2014 Plan. Under the 2014 Plan, approximately 8 million shares are authorized for grant, of which approximately 4.9 million shares are available for future issuance as of December 31, 2017.

Stock Options A summary of the plans' shares under option at December 31, 2017, 2016 and 2015 is as follows:

	Shares (thousands)	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2015	1,714	$ 16.11	1.7	$ 66.5
Exercised	(440)	$ 14.76		$ 19.2
Forfeited	(7)	$ 14.52		
Outstanding at December 31, 2015	1,267	$ 16.59	0.9	$ 33.7
Exercised	(794)	$ 16.07		$ 14.4
Outstanding at December 31, 2016	473	$ 17.47	0.1	$ 10.4
Exercised	(473)	$ 17.47		$ 10.4
Outstanding at December 31, 2017	—	$ —	0.0	$ —
Options exercisable at December 31, 2017	—	$ —	0.0	$ —

Proceeds from stock option exercises for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Year Ended December 31,		
(millions of dollars)	2017	2016	2015
Proceeds from stock options exercised — gross	$8.3	$12.7	$6.5
Tax benefit	8.2	0.3	10.3
Proceeds from stock options exercised, net of tax	$16.5	$13.0	$16.8

Restricted Stock The value of restricted stock is determined by the market value of the Company's common stock at the date of grant. In 2017, restricted stock in the amount of 776,753 shares and 26,919 shares was granted to employees and non-employee directors, respectively. The value of the awards is recognized as compensation expense ratably over the restriction periods. As of December 31, 2017, there was $28.0 million of unrecognized compensation expense that will be recognized over a weighted average period of approximately 2 years.

95

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted stock compensation expense recorded in the Consolidated Statements of Operations is as follows:

	Year Ended December 31,		
(millions of dollars, except per share data)	2017	2016	2015
Restricted stock compensation expense	$27.0	$26.7	$28.0
Restricted stock compensation expense, net of tax	$19.7	$19.5	$20.4

A summary of the status of the Company's nonvested restricted stock for employees and non-employee directors at December 31, 2017, 2016 and 2015 is as follows:

	Shares subject to restriction (thousands)	Weighted average grant date fair value
Nonvested at January 1, 2015	1,266	$ 43.57
Granted	687	$ 58.45
Vested	(588)	$ 39.14
Forfeited	(39)	$ 50.85
Nonvested at December 31, 2015	1,326	$ 53.18
Granted	724	$ 30.07
Vested	(551)	$ 47.55
Forfeited	(70)	$ 43.05
Nonvested at December 31, 2016	1,429	$ 44.12
Granted	804	$ 40.10
Vested	(521)	$ 56.53
Forfeited	(119)	$ 38.97
Nonvested at December 31, 2017	1,593	$ 38.86

Total Shareholder Return Performance Share Plans The 2004 and 2014 Plans provide for awarding of performance shares to members of senior management at the end of successive three-year periods based on the Company's performance in terms of total shareholder return relative to a peer group of automotive companies. Based on the Company's relative ranking within the performance peer group, it is possible for none of the awards to vest or for a range up to the 200% of the target shares to vest.

The Company recognizes compensation expense relating to its performance share plans ratably over the performance period regardless of whether the market conditions are expected to be achieved. Compensation expense associated with the performance share plans is calculated using a lattice model (Monte Carlo simulation). The amounts expensed under the plan and the common stock issuances for the three-year measurement periods ended December 31, 2017, 2016 and 2015 were as follows:

	Year Ended December 31,		
(millions of dollars, except share data)	2017	2016	2015
Expense	$9.9	$9.6	$12.2
Number of shares	—	—	—

The Company's non-vested total shareholder return performance share awards outstanding at December 31, 2017, 2016 and 2015 were 356,750; 409,600; and 474,600 shares, respectively. The weighted average grant date fair value of the

total shareholder return performance share awards was $32.26, $43.99 and $56.55 for 2017, 2016 and 2015, respectively. As of December 31, 2017, there was $7.2 million of unrecognized compensation expense that will be recognized over a weighted average period of approximately 2 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Relative Revenue Growth Performance Share Plans In the second quarter of 2016, the Company started a new performance share program to reward members of senior management based on the Company's performance in terms of revenue growth relative to the vehicle market over three-year performance periods. The value of this performance share award is determined by the market value of the Company’s common stock at the date of grant. The Company recognizes compensation expense relating to its performance share plans over the performance period based on the number of shares expected to vest at the end of each reporting period. The actual performance of the Company is evaluated quarterly, and the expense is adjusted according to the new projections. The amounts expensed under the plan and common stock issuance for the year ended December 31, 2017 and 2016 were as follows:

	Year Ended December 31,	
(millions of dollars, except share data)	2017	2016
Expense	$15.9	$7.1
Number of shares	126,000	—

A summary of the status of the Company’s nonvested relative revenue growth performance shares at December 31, 2017 and 2016 is as follows:

	Number of shares (thousands)	Weighted average grant date fair value
Nonvested at December 31, 2015	—	$ —
Granted	485	$ 38.62
Vested	(126)	$ 38.62
Forfeited	(39)	$ 38.62
Nonvested at December 31, 2016	320	$ 38.62
Granted	198	$ 40.08
Vested	(156)	$ 38.62
Forfeited	(7)	$ 39.20
Nonvested at December 31, 2017	355	$ 39.42

Based on the Company’s relative revenue growth in excess of the industry vehicle production, it is possible for none of the awards to vest or for a range up to the 200% of the target shares to vest. As of December 31, 2017, there was $9.3 million of unrecognized compensation expense that will be recognized over a weighted average period of approximately 2 years. The unrecognized amount of compensation expense is based on projected performance as of December 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 13 ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity within accumulated other comprehensive loss during the years ended December 31, 2017, 2016 and 2015:

(millions of dollars)	Foreign currency translation adjustments	Hedge instruments	Defined benefit postretirement plans	Other	Total
Beginning Balance, January 1, 2015	$ (160.7)	$ 1.7	$ (227.3)	$2.7	$(383.6)
Comprehensive (loss) income before reclassifications	(260.5)	2.6	44.9	0.2	(212.8)
Income taxes associated with comprehensive (loss) income before reclassifications	—	(1.6)	(14.3)	—	(15.9)
Reclassification from accumulated other comprehensive (loss) income	—	(6.1)	9.6	—	3.5
Income taxes reclassified into net earnings	—	1.4	(2.8)	—	(1.4)
Ending Balance December 31, 2015	$ (421.2)	$ (2.0)	$ (189.9)	$2.9	$(610.2)
Comprehensive (loss) income before reclassifications	(109.1)	8.0	(11.4)	(1.6)	(114.1)
Income taxes associated with comprehensive (loss) income before reclassifications	—	(0.7)	(2.6)	—	(3.3)
Reclassification from accumulated other comprehensive (loss) income	—	0.1	8.3	—	8.4
Income taxes reclassified into net earnings	—	(0.4)	(2.5)	—	(2.9)
Ending Balance December 31, 2016	$ (530.3)	$ 5.0	$ (198.1)	$1.3	$(722.1)
Comprehensive (loss) income before reclassifications	236.5	(4.5)	(5.0)	1.4	228.4
Income taxes associated with comprehensive (loss) income before reclassifications	—	1.0	(0.5)	—	0.5
Reclassification from accumulated other comprehensive (loss) income	—	(3.8)	8.5	—	4.7
Income taxes reclassified into net earnings	—	1.0	(2.5)	—	(1.5)
Ending Balance December 31, 2017	$ (293.8)	$ (1.3)	$ (197.6)	$2.7	$(490.0)

NOTE 14 CONTINGENCIES

In the normal course of business, the Company is party to various commercial and legal claims, actions and complaints, including matters involving warranty claims, intellectual property claims, general liability and various other risks. It is not possible to predict with certainty whether or not the Company will ultimately be successful in any of these commercial and legal matters or, if not, what the impact might be. The Company's environmental and product liability contingencies are discussed separately below. The Company's management does not expect that an adverse outcome in any of these commercial and legal claims, actions and complaints will have a material adverse effect on the Company's results of operations, financial position or cash flows, although it could be material to the results of operations in a particular quarter.

Environmental

The Company and certain of its current and former direct and indirect corporate predecessors, subsidiaries and divisions have been identified by the United States Environmental Protection Agency and certain state environmental agencies and private parties as potentially responsible parties ("PRPs") at various hazardous waste disposal sites under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") and equivalent state laws

and, as such, may presently be liable for the cost of clean-up and other remedial activities at 27 such sites. Responsibility for clean-up and other remedial activities at a Superfund site is typically shared among PRPs based on an allocation formula.

The Company believes that none of these matters, individually or in the aggregate, will have a material adverse effect on its results of operations, financial position or cash flows. Generally, this is because either

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the estimates of the maximum potential liability at a site are not material or the liability will be shared with other PRPs, although no assurance can be given with respect to the ultimate outcome of any such matter.

Based on information available to the Company (which in most cases includes: an estimate of allocation of liability among PRPs; the probability that other PRPs, many of whom are large, solvent public companies, will fully pay the cost apportioned to them; currently available information from PRPs and/or federal or state environmental agencies concerning the scope of contamination and estimated remediation and consulting costs; and remediation alternatives), the Company has an accrual for indicated environmental liabilities of $8.3 million and $6.3 million at December 31, 2017 and at December 31, 2016, respectively. The Company expects to pay out substantially all of the amounts accrued for environmental liability over the next five years.

In connection with the sale of Kuhlman Electric Corporation (“Kuhlman Electric”), a former indirect subsidiary, the Company agreed to indemnify the buyer and Kuhlman Electric against certain environmental liabilities relating to certain operations of Kuhlman Electric that pre-date the Company’s 1999 acquisition of Kuhlman Electric. Kuhlman Electric was sued by plaintiffs alleging personal injuries purportedly arising from contamination at Kuhlman Electric’s Crystal Springs, Mississippi facility. The Company understands that Kuhlman Electric was required by regulatory officials to remediate such contamination. Kuhlman Electric and its new owner tendered the personal injury lawsuits and regulatory demands to the Company. After the Company made certain payments to the plaintiffs and undertook certain remediation on Kuhlman Electric’s behalf, litigation regarding the validity of the indemnity ensued. The underlying personal injury lawsuits and indemnity litigation now have been fully resolved. The Company continues to pursue litigation against Kuhlman Electric’s historical insurers for reimbursement of amounts it paid on behalf of Kuhlman Electric under the indemnity. The Company may in the future become subject to further legal proceedings relating to these matters.

Asbestos-related Liability

Like many other industrial companies that have historically operated in the United States, the Company, or parties that the Company is obligated to indemnify, continues to be named as one of many defendants in asbestos-related personal injury actions. We believe that the Company’s involvement is limited because these claims generally relate to a few types of automotive products that were manufactured over thirty years ago and contained encapsulated asbestos. The nature of the fibers, the encapsulation of the asbestos, and the manner of the products’ use all lead the Company to believe that these products were and are highly unlikely to cause harm. Furthermore, the useful life of nearly all of these products expired many years ago.

The Company’s asbestos-related claims activity for the year ended December 31, 2017 and 2016 is as follows:

	2017	2016
Beginning Claims January 1	9,385	10,061
New Claims Received	2,116	2,078
Dismissed Claims	(1,866)	(2,402)
Settled Claims	(410)	(352)
Ending Claims December 31	9,225	9,385

The Company vigorously defends against these claims, and has obtained the dismissal of the majority of the claims asserted against it without any payment. The Company likewise expects that no payment will be made by the Company or its insurers in the vast majority of current and future asbestos-related claims in which it has been or will be named (or has an obligation to indemnify a party which has been or will be named).

Through December 31, 2017 and December 31, 2016, the Company incurred $528.7 million and $477.7 million, respectively, in indemnity (including settlement payments) and defense costs in connection with

99

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

asbestos-related claims. During 2017 and 2016, the Company paid $51.7 million and $45.3 million, respectively, in indemnity and related defense costs in connection with asbestos-related claims. These gross payments are before tax benefits and any insurance receipts. Indemnity and defense costs are incorporated into the Company's operating cash flows and will continue to be in the future.

The Company reviews, on an ongoing basis, its own experience in handling asbestos-related claims and trends affecting asbestos-related claims in the U.S. tort system generally, for the purposes of assessing the value of pending asbestos-related claims and the estimated number and value of those that may be asserted in the future, as well as potential recoveries from the Company’s insurers with respect to such claims and defense costs.

As described in Note 1 Restatement of Consolidated Financial Statements above, in June 2018 the Company re-evaluated its accounting for asbestos-related claims including associated defense costs and concluded that it should have recorded an estimated liability for unasserted asbestos-related claims prior to the fourth quarter of 2016. The Company further determined that the failure to record such an estimated liability in an earlier period(s) was an error in the Company’s consolidated financial statements for such period(s). As a result, the Company retroactively determined, with the assistance of its outside actuarial consultant, an appropriate estimated liability for asbestos-related claims and their associated defense costs to be accrued as of December 31, 2012. This amount, together with the impact from recording the corresponding insurance recoveries and deferred tax assets resulted in a decrease to retained earnings of $410.1 million as of December 31, 2012. The estimated amount accrued as of December 31, 2012 has been included in the Company’s Consolidated Financial Statements for each fiscal year ended December 31, 2013, 2014, 2015, and 2016, adjusted for amounts actually spent by the Company during each of those years on account of asbestos-related claims and associated defense costs in addition to any changes in the valuation of the liability.

As part of its review and assessment of asbestos-related claims, the Company utilizes a third party actuary to further assist in the analysis of potential future asbestos-related claims. The actuary’s work utilizes data and analysis resulting from the Company’s claim review process and includes the development of an estimate of the potential value of asbestos-related claims asserted but not yet resolved as well as the number and potential value of asbestos-related claims not yet asserted. In developing the estimate of liability for potential future claims, the third-party actuary projects a potential number of future claims based on the Company’s historical claim filings and patterns and compares that to anticipated levels of unique plaintiff asbestos-related claims asserted in the U.S. tort system against all defendants. The consultant also utilizes assumptions based on the Company’s historical proportion of claims resolved without payment, historical settlement costs for those claims that result in a payment, and historical defense costs. The liabilities are then estimated by multiplying the pending and projected future claim filings by projected payments rates and average settlement amounts and then adding an estimate for defense costs.

The Company determined based on the factors described above, including the analysis and input of the consultant, that its best estimate of the aggregate liability both for asbestos-related claims asserted but not yet resolved and potential asbestos-related claims not yet asserted, including an estimate for defense costs, was $828.2 million and $879.3 million as of December 31, 2017 and December 31, 2016, respectively. This liability reflects the actuarial central estimate, which is intended to represent an expected value of the most probable outcome. As of December 31, 2017 and 2016, the Company estimates that its aggregate liability for such claims, including estimated defense costs, is as follows:

(millions of dollars)	2017	2016
Beginning Asbestos Liability as of January 1	$879.3	$969.8
Actuarial revaluation	—	(45.5)
Indemnity and Defense Related Costs	(51.1)	(45.0)
Ending Asbestos Liability as of December 31	$828.2	$879.3

100

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's estimate is not discounted to present value and includes an estimate of liability for potential future claims not yet asserted through December 31, 2059 with a runoff through 2067. The Company currently believes that December 31, 2067 is a reasonable assumption as to the last date on which it may have resolved all asbestos-related claims, based on the nature and useful life of the Company’s products and the likelihood of incidence of asbestos-related disease in the U.S. population generally.

During the year ended December 31, 2017, the Company with the assistance of local counsel and external actuary reviewed the Company's claims experience against external data sources and concluded no actuarial valuation adjustment to the liability in 2017 was necessary. During the year ended December 31, 2016, the Company recorded a decrease to its asbestos-related liabilities of $45.5 million as a result of actuarial valuation changes. This decrease was the result of lower future indemnity values resulting from changes in the Company's defense strategy in recent years and docket control measures which were implemented in a significant jurisdiction in 2016. During the year ended December 31, 2015, the Company recorded an increase to its asbestos-related liability of $64.8 million as a result of actuarial valuation changes. The increase was a result of updates in 2015 to the anticipated levels of unique plaintiff asbestos-related claims asserted in the U.S. tort system against all defendants as determined by the actuary, the increase in the Company's claims activity and changes in the mix of disease types in new claims received in 2015.

The Company’s estimate of the indemnity and defense costs for asbestos-related claims asserted but not yet resolved and potential claims not yet asserted is its reasonable best estimate of such costs. Such estimate is subject to numerous uncertainties. These include future legislative or judicial changes affecting the U.S. tort system, bankruptcy proceedings involving one or more co-defendants, the impact and timing of payments from bankruptcy trusts that presently exist and those that may exist in the future, disease emergence and associated claim filings, the impact of future settlements or significant judgments, changes in the medical condition of claimants, changes in the treatment of asbestos-related disease, and any changes in settlement or defense strategies. The balances recorded for asbestos-related claims are based on the best available information and assumptions that the Company believes are reasonable, including as to the number of future claims that may be asserted, the percentage of claims that may result in a payment, the average cost to resolve such claims, and potential defense costs. The Company concluded that it is reasonably possible that it may incur additional losses through 2067 for asbestos-related claims, in addition to amounts recorded, of up to approximately $100.0 million as of December 31, 2017. The various assumptions utilized in arriving at the Company’s estimate may also change over time, and the Company’s actual liability for asbestos-related claims asserted but not yet resolved and those not yet asserted may be higher or lower than the Company’s estimate as a result of such changes.

The Company has certain insurance coverage applicable to asbestos-related claims. Prior to June 2004, the settlement and defense costs associated with all asbestos-related claims were paid by the Company's primary layer insurance carriers under a series of interim funding arrangements. In June 2004, primary layer insurance carriers notified the Company of the alleged exhaustion of their policy limits. A declaratory judgment action was filed in January 2004 in the Circuit Court of Cook County, Illinois by Continental Casualty Company and related companies against the Company and certain of its historical general liability insurers. The Cook County court has issued a number of interim rulings and discovery is continuing in this proceeding. The Company is vigorously pursuing the litigation against all carriers that are parties to it, as well as pursuing settlement discussions with its carriers where appropriate. The Company has entered into settlement agreements with certain of its insurance carriers, resolving such insurance carriers’ coverage disputes through the carriers’ agreement to pay specified amounts to the Company, either immediately or over a specified period. Through December 31, 2017 and December 31, 2016, the Company received $270.0 million in cash and notes from insurers on account of indemnity and defense costs respecting asbestos-related claims.

The Company continues to have additional excess insurance coverage available for potential future asbestos-related claims. As of December 31, 2017 and December 31, 2016, the Company estimates that it has $386.4 million in aggregate insurance coverage available with respect to asbestos-related claims and

101

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

their associated defense costs, which the Company has recorded as a receivable. The Company has determined the amount of that estimate by taking into account the remaining limits of the insurance coverage, the number and amount of potential claims from co-insured parties, potential remaining recoveries from insolvent insurers, the impact of previous insurance settlements, and coverage available from solvent insurers not party to the coverage litigation. The Company's remaining estimated insurance coverage relating to asbestos-related claims and their associated defense costs is the subject of disputes with its insurers, substantially all of which are being adjudicated in the Cook County insurance litigation. The Company believes that its insurance receivable is probable of collection notwithstanding those disputes based on, among other things, the arguments made by the insurers in the Cook County litigation and evaluation of those arguments by the Company and its counsel, the case law applicable to the issues in dispute, the rulings to date by the Cook County court, the absence of any credible evidence alleged by the insurers that they are not liable to indemnify the Company, and the fact that the Company has recovered a substantial portion of its insurance coverage (approximately $270.0 million) to date from its insurers under similar policies. However, the resolution of the insurance coverage disputes, and the number and amount of claims on our insurance from co-insured parties, may increase or decrease the amount of such insurance coverage available to the Company as compared to the Company's estimate.

The amounts recorded in the Condensed Consolidated Balance Sheets respecting asbestos-related claims are as follows:

	December 31,	
(millions of dollars)	2017	2016
Assets:		
Non-current assets	$386.4	$386.4
Total insurance assets	$386.4	$386.4
Liabilities:		
Accounts payable and accrued expenses	$52.5	$51.7
Other non-current liabilities	775.7	827.6
Total accrued liabilities	$828.2	$879.3

On July 31, 2018, the Division of Enforcement of the SEC has informed the Company that it is conducting an investigation related to the Company's accounting for its unasserted asbestos-related claims. The Company is fully cooperating with the SEC in connection with its investigation.

NOTE 15 RESTRUCTURING

In the third quarter of 2017, the Company initiated actions within its emissions business in the Engine segment designed to improve future profitability and competitiveness and started exploring strategic options for the non-core emission product lines. As a result, the Company recorded restructuring expense of $48.2 million in the year ended December 31, 2017, primarily related to professional fees and negotiated commercial costs associated with business divestiture and manufacturing footprint rationalization activities. The Company will continue its plan to improve the future profitability and competitiveness of its remaining European emissions business in the Engine segment. These actions may result in the recognition of additional restructuring charges that could be material.

On September 27, 2017, the Company acquired 100% of the equity interests of Sevcon. In connection with this transaction, the Company recorded restructuring expense of $6.8 million during the year ended December 31, 2017, primarily related to contractually required severance associated with Sevcon executive officers and other employee termination benefits.

In the fourth quarter of 2013, the Company initiated actions primarily in the Drivetrain segment designed to improve future profitability and competitiveness. As a continuation of these actions, the Company finalized severance agreements with three labor unions at separate facilities in Western Europe for approximately

102

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

450 employees. The Company recorded restructuring expense related to these facilities of $8.2 million and $28.0 million in the years ended December 31, 2016 and 2015, respectively. Included in this restructuring expense are employee termination benefits of $3.0 million and $20.1 million, respectively, and other expense of $5.2 million and $7.9 million, respectively.

In the second quarter of 2014, the Company initiated actions to improve the future profitability and competitiveness of Gustav Wahler GmbH u. Co. KG and its general partner ("Wahler"). The Company recorded restructuring expense related to Wahler of $9.6 million and $11.6 million in the years ended December 31, 2016 and 2015, respectively. These restructuring expenses are primarily related to employee termination benefits.

The Company recorded restructuring expense of $12.5 million in the year ended December 31, 2015 related to a global realignment plan intended to enhance treasury management flexibility by creating a legal entity structure that better aligns with the Company's business strategy.

In the fourth quarter of 2015, the Company acquired 100% of the equity interests in Remy and initiated actions to improve future profitability and competitiveness. The Company recorded restructuring expense of $6.1 million and $10.1 million in the years ended December 31, 2016 and 2015, respectively. Included in this restructuring expense was $3.1 million in the year ended December 31, 2016 related to winding down certain operations in North America. Additionally, the Company recorded employee termination benefits of $2.0 million and $10.1 million in the years ended December 31, 2016 and 2015, respectively, primarily related to contractually required severance associated with Remy executive officers and other employee termination benefits in Mexico.

Estimates of restructuring expense are based on information available at the time such charges are recorded. Due to the inherent uncertainty involved in estimating restructuring expenses, actual amounts paid for such activities may differ from amounts initially recorded. Accordingly, the Company may record revisions of previous estimates by adjusting previously established accruals.

The following table displays a rollforward of the severance accruals recorded within the Company's Consolidated Balance Sheet and the related cash flow activity for the years ended December 31, 2017 and 2016:

	Severance Accruals		
(millions of dollars)	Drivetrain	Engine	Total
Balance at January 1, 2016	$25.3	$ 4.1	$29.4
Provision	5.0	5.6	10.6
Cash payments	(26.9)	(6.9)	(33.8)
Translation adjustment	0.3	(0.1)	0.2
Balance at December 31, 2016	3.7	2.7	6.4
Provision	4.7	1.4	6.1
Cash payments	(4.6)	(2.9)	(7.5)
Translation adjustment	0.3	0.1	0.4
Balance at December 31, 2017	$4.1	$ 1.3	$5.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 16 LEASES AND COMMITMENTS

Certain assets are leased under long-term operating leases including rent for facilities. Most leases contain renewal options for various periods. Leases generally require the Company to pay for insurance, taxes and maintenance of the leased property. The Company leases other equipment such as vehicles and certain office equipment under short-term leases. Total rent expense was $39.6 million, $38.2 million and $31.9 million in the years ended December 31, 2017, 2016 and 2015, respectively. The Company does not have any material capital leases.

Future minimum operating lease payments at December 31, 2017 were as follows:

(millions of dollars)	
2018	$23.0
2019	18.9
2020	9.2
2021	8.4
2022	7.0
After 2022	11.8
Total minimum lease payments	$78.3

NOTE 17 EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share of common stock (“EPS”) amounts. Basic EPS is calculated by dividing net earnings attributable to BorgWarner Inc. by the weighted average shares of common stock outstanding during the reporting period. Diluted EPS is calculated by dividing net earnings attributable to BorgWarner Inc. by the weighted average shares of common stock and common equivalent stock outstanding during the reporting period.

The dilutive impact of stock-based compensation is calculated using the treasury stock method. The treasury stock method assumes that the Company uses the assumed proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized. Options are only dilutive when the average market price of the underlying common stock exceeds the exercise price of the options. The dilutive effects of performance-based stock awards described in the Stock Based Compensation footnote are included in the computation of diluted earnings per share at the level the related performance criteria are met through the respective balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share of common stock:

	Year Ended December 31,		
(in millions except per share amounts)	2017	2016	2015
Basic earnings per share:			
Net earnings attributable to BorgWarner Inc.	$439.9	$ 595.0	$ 577.2
Weighted average shares of common stock outstanding	210.429	214.374	224.414
Basic earnings per share of common stock	$2.09	$ 2.78	$ 2.57
Diluted earnings per share:			
Net earnings attributable to BorgWarner Inc.	$439.9	$ 595.0	$ 577.2
Weighted average shares of common stock outstanding	210.429	214.374	224.414
Effect of stock-based compensation	1.119	0.954	1.234
Weighted average shares of common stock outstanding including dilutive shares	211.548	215.328	225.648
Diluted earnings per share of common stock	$2.08	$ 2.76	$ 2.56

NOTE 18 RECENT TRANSACTIONS

Sevcon, Inc.

On September 27, 2017, the Company acquired 100% of the equity interests in Sevcon for cash of $185.7 million. This amount includes $26.6 million paid to settle outstanding debt and $5.1 million paid for Sevcon stock-based awards attributable to pre-combination services.

Sevcon is a global player in electrification technologies, serving customers in the U.S., U.K., France, Germany, Italy, China and the Asia Pacific region. Sevcon complements BorgWarner’s power electronics capabilities utilized to provide electrified propulsion solutions.

Sevcon's assets are reported within the Company's Drivetrain reporting segment as of the date of the acquisition. Sevcon's operating results from the date of acquisition through December 31, 2017 were insignificant to the Company's Consolidated Statement of Operations. The Company paid $185.7 million in 2017, which is reported as an investing activity in the Company's Consolidated Statement of Cash Flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the aggregated preliminary fair value of the assets acquired and liabilities assumed on September 27, 2017, the date of acquisition:

(millions of dollars)	
Receivables, net	$15.9
Inventories, net	18.6
Other current assets	2.8
Property, plant and equipment, net	7.3
Goodwill	125.8
Other intangible assets	70.7
Deferred tax liabilities	(9.5)
Income taxes payable	(0.7)
Other assets and liabilities	(2.7)
Accounts payable and accrued expenses	(24.5)
Total consideration, net of cash acquired	203.7
Less: Assumed retirement-related liabilities	18.0
Cash paid, net of cash acquired	$185.7

In connection with the acquisition, the Company capitalized $17.7 million for customer relationships, $48.8 million for developed technology and $4.2 million for the Sevcon trade name. These intangible assets, excluding the indefinite-lived trade name, will be amortized over a period of 7 to 20 years. Various valuation techniques were used to determine the fair value of the intangible assets, with the primary techniques being forms of the income approach, specifically, the relief-from-royalty and excess earnings valuation methods, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, the Company is required to make estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on budgets, business plans, economic projections, anticipated future cash flows and marketplace data. Due to the nature of the transaction, goodwill is not deductible for tax purposes.

The Company is in the process of finalizing all purchase accounting adjustments related to the Sevcon acquisition. The Company has recorded fair value adjustments based on new information obtained during the measurement period primarily related to intangible assets. These adjustments have resulted in a decrease in goodwill of $7.8 million from the Company's initial estimate. In addition, certain other estimated values for the acquisition, including goodwill, contingencies and deferred taxes are not yet finalized, and the preliminary purchase price allocations are subject to change as the Company completes its analysis of the fair value at the date of acquisition.

Due to its insignificant size relative to the Company, supplemental pro forma financial information of the combined entity for the current and prior reporting period is not provided.

Divgi-Warner Private Limited

In August 2016, the Company sold its 60% ownership interest in Divgi-Warner Private Limited ("Divgi-Warner") to the joint venture partner. This former joint venture was formed in 1995 to develop and manufacture transfer cases and synchronizer rings in India. As a result of the sale, the Company received cash proceeds of approximately $5.4 million, net of capital gains tax and cash divested, which is classified as an investing activity within the Condensed Consolidated Statement of Cash Flows. Furthermore, the Company wrote off noncontrolling interest of $4.8 million as result of the sale and recognized a negligible gain in the year ended December 31, 2016.

106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Remy International, Inc.

On November 10, 2015, the Company acquired 100% of the equity interests in Remy for $29.50 per share in cash. The Company also settled approximately $361.0 million of outstanding debt. Remy was a global market leading producer of rotating electrical components that had key technologies and operations in 10 countries. The cash paid, net of cash acquired, was 1,187.0 million.

In October 2016, the Company entered into a definitive agreement to sell the light vehicle aftermarket business associated with the Company's acquisition of Remy for approximately $80 million in cash. The Remy light vehicle aftermarket business sells remanufactured and new starters, alternators and multi-line products to aftermarket customers, mainly retailers in North America, and warehouse distributors in North America, South America and Europe. The sale of this business allowed the Company to focus on the rapidly developing original equipment manufacturer powertrain electrification trend. During the third quarter of 2016, the Company determined that assets and liabilities subject to the Remy light vehicle aftermarket business sale met the held for sale criteria and recorded an asset impairment expense of $106.5 million to adjust the net book value of this business to its fair value. During the fourth quarter of 2016, upon the closing of the transaction, the Company recorded an additional loss of $20.6 million related to the finalization of the sale proceeds, changes in working capital from the amounts originally estimated and costs associated with the winding down of an aftermarket related product line, resulting in a total loss on divestiture of $127.1 million in the year ended December 31, 2016. As a result of this transaction, total assets of $284.1 million including $94.7 million of inventory and $72.6 million of accounts receivable and total liabilities of $93.2 million were removed from the Company's consolidated balance sheet.

BERU Diesel Start Systems Pvt. Ltd.

In January 2015, the Company completed the purchase of the remaining 51% of BERU Diesel by acquiring the shares of its former joint venture partner. The former joint venture was formed in 1996 to develop and manufacture glow plugs in India. After this transaction, the Company owns 100% of the entity. The cash paid, net of cash acquired, was $12.6 million (783.1 million Indian rupees).

The operating results are reported within the Company's Engine reporting segment. The Company paid $12.6 million, which is recorded as an investing activity in the Company's Consolidated Statement of Cash Flows. As a result of this transaction, the Company recorded a 10.8 million gain on the previously held equity interest in this joint venture. Additionally, the Company acquired assets of $16.0 million, including $11.2 million in definite-lived intangible assets, and assumed liabilities of $4.6 million. The Company also recorded $13.9 million of goodwill, which is expected to be non-deductible for tax purposes.

NOTE 19 ASSETS AND LIABILITIES HELD FOR SALE

In the third quarter of 2017, the Company started exploring strategic options for the non-core emission product lines in the Engine segment. In the fourth quarter of 2017, the Company launched an active program to locate a buyer for the non-core pipes and thermostat product lines and initiated all other actions required to complete the plan to sell the non-core product lines. The Company determined that the assets and liabilities of the pipes and thermostat product lines met the held for sale criteria as of December 31, 2017. As such, assets of $67.3 million, including allocated goodwill of $7.3 million, and liabilities of $29.5 million were reclassified as held for sale on the Consolidated Balance Sheets as of December 31, 2017. The fair value of the assets and liabilities, less costs to sell, was determined to be less than the carrying value, therefore, the Company recorded an asset impairment expense of $71.0 million in Other expense, net to adjust the net book value of this business to its fair value less cost to sell. The business did not meet the criteria to be classified as a discontinued operation.

107

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The assets and liabilities classified as held for sale as of December 31, 2017 are as follows:

(millions of dollars)	
Receivables, net	$21.0
Inventories, net	30.4
Prepayments and other current assets	10.3
Property, plant and equipment, net	47.7
Goodwill	7.3
Other intangible assets, net	21.1
Other assets	0.5
Impairment of carrying value	(71.0)
Total assets held for sale	$67.3
Accounts payable and accrued expenses	$24.6
Other liabilities	4.9
Total liabilities held for sale	$29.5

NOTE 20 REPORTING SEGMENTS AND RELATED INFORMATION

The Company's business is comprised of two reporting segments: Engine and Drivetrain. These segments are strategic business groups, which are managed separately as each represents a specific grouping of related automotive components and systems.

The Company allocates resources to each segment based upon the projected after-tax return on invested capital ("ROIC") of its business initiatives. ROIC is comprised of Adjusted EBIT after deducting notional taxes compared to the projected average capital investment required. Adjusted EBIT is comprised of earnings before interest, income taxes and noncontrolling interest (“EBIT") adjusted for restructuring, goodwill impairment charges, affiliates' earnings and other items not reflective of on-going operating income or loss.

Adjusted EBIT is the measure of segment income or loss used by the Company. The Company believes Adjusted EBIT is most reflective of the operational profitability or loss of our reporting segments. The following tables show segment information and Adjusted EBIT for the Company's reporting segments.

2017 Segment information

	Net sales					Long-lived
(millions of dollars)	Customers	Inter-segment	Net	Year-end assets	Depreciation/ amortization	asset expenditures (b)
Engine	$6,009.0	$ 52.5	$6,061.5	$4,732.9	$ 218.8	$ 305.5
Drivetrain	3,790.3	—	3,790.3	3,903.8	160.9	241.6
Inter-segment eliminations	—	(52.5)	(52.5)	—	—	—
Total	9,799.3	—	9,799.3	8,636.7	379.7	547.1
Corporate (c)	—	—	—	1,150.9	28.1	12.9
Consolidated	$9,799.3	$ —	$9,799.3	$9,787.6	$ 407.8	$ 560.0

108

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2016 Segment information

(millions of dollars)	Net sales Customers	Inter-segment	Net	Year-end assets	Depreciation/ amortization	Long-lived asset expenditures (b)
Engine	$5,547.3	$ 42.8	$5,590.1	$4,134.6	$ 211.9	$ 298.7
Drivetrain	3,523.7	—	3,523.7	3,212.4	154.5	182.8
Inter-segment eliminations	—	(42.8)	(42.8)	—	—	—
Total	9,071.0	—	9,071.0	7,347.0	366.4	481.5
Corporate (c)	—	—	—	1,487.7	25.0	19.1
Consolidated	$9,071.0	$ —	$9,071.0	$8,834.7	$ 391.4	$ 500.6

2015 Segment information

(millions of dollars)	Net sales Customers	Inter-segment	Net	Year-end assets (restated) (a)	Depreciation/ amortization	Long-lived asset expenditures (b)
Engine	$5,466.5	$ 33.5	$5,500.0	$4,017.8	$ 200.2	$ 332.4
Drivetrain	2,556.7	—	2,556.7	3,685.1	97.0	221.8
Inter-segment eliminations	—	(33.5)	(33.5)	—	—	—
Total	8,023.2	—	8,023.2	7,702.9	297.2	554.2
Corporate (c)	—	—	—	1,507.6	23.0	23.1
Consolidated	$8,023.2	$ —	$8,023.2	$9,210.5	$ 320.2	$ 577.3

(a) Certain amounts have been restated to reflect the corrections discussed in Note 1 to the Consolidated Financial Statements.

(b) Corporate assets include investments and other long-term receivables and deferred income taxes.

(c) Long-lived asset expenditures include capital expenditures and tooling outlays.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Adjusted earnings before interest, income taxes and noncontrolling interest ("Adjusted EBIT")

	Year Ended December 31,		
(millions of dollars)	2017	2016 (restated) (a)	2015 (restated) (a)
Engine	$995.7	$947.3	$913.9
Drivetrain	449.8	364.5	304.6
Adjusted EBIT	1,445.5	1,311.8	1,218.5
Asset impairment and loss on divestiture	71.0	127.1	—
Restructuring expense	58.5	26.9	65.7
Merger and acquisition expense	10.0	23.7	21.8
Lease termination settlement	5.3	—	—
Other expense, net	2.1	—	—
Asbestos-related adjustments	—	(48.6)	51.4
Intangible asset impairment	—	12.6	—
Contract expiration gain	—	(6.2)	—
Pension settlement loss	—	—	25.7
Gain on previously held equity interest	—	—	(10.8)
Corporate, including equity in affiliates' earnings and stock-based compensation	170.3	155.3	136.4
Interest income	(5.8)	(6.3)	(7.5)
Interest expense and finance charges	70.5	84.6	60.4
Earnings before income taxes and noncontrolling interest	1,063.6	942.7	875.4
Provision for income taxes	580.3	306.0	261.5
Net earnings	483.3	636.7	613.9
Net earnings attributable to the noncontrolling interest, net of tax	43.4	41.7	36.7
Net earnings attributable to BorgWarner Inc.	$439.9	$595.0	$577.2

(a) Certain amounts have been restated to reflect the corrections discussed in Note 1 to the Consolidated Financial Statements.

110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Geographic Information

Outside the U.S., only Germany, China, South Korea, Mexico and Hungary exceeded 5% of consolidated net sales during the year ended December 31, 2017, attributing sales to the location of production rather than the location of the customer. Also, the Company's 50% equity investment in NSK-Warner (see the Balance Sheet Information footnote to the Consolidated Financial Statements) of $185.1 million, $172.9 million and $158.7 million at December 31, 2017, 2016 and 2015, respectively, is excluded from the definition of long-lived assets, as are goodwill and certain other non-current assets.

	Net sales			Long-lived assets		
(millions of dollars)	2017	2016	2015	2017	2016	2015
United States	$2,280.0	$2,236.0	$1,985.1	$719.3	$799.3	$800.5
Europe:						
Germany	1,652.6	1,735.1	1,857.1	413.4	370.3	380.9
Hungary	655.7	541.1	500.5	147.5	122.2	112.4
Other Europe	1,427.2	1,193.9	1,261.0	426.1	337.7	318.0
Total Europe	3,735.5	3,470.1	3,618.6	987.0	830.2	811.3
China	1,560.1	1,218.0	1,009.0	554.8	384.6	355.8
South Korea	877.6	948.2	741.7	244.2	208.0	218.6
Mexico	920.2	805.6	312.7	201.2	136.2	132.8
Other foreign	425.9	393.1	356.1	157.3	143.5	129.1
Total	$9,799.3	$9,071.0	$8,023.2	$2,863.8	$2,501.8	$2,448.1

Sales to Major Customers

Consolidated net sales to Ford (including its subsidiaries) were approximately 15%, 15%, and 15% for the years ended December 31, 2017, 2016 and 2015, respectively; and to Volkswagen (including its subsidiaries) were approximately 13%, 13% and 15% for the years ended December 31, 2017, 2016 and 2015, respectively. Both of the Company's reporting segments had significant sales to Volkswagen and Ford in 2017, 2016 and 2015. Such sales consisted of a variety of products to a variety of customer locations and regions. No other single customer accounted for more than 10% of consolidated net sales in any of the years presented.

Sales by Product Line

Sales of turbochargers for light vehicles represented approximately 28%, 28% and 31% of total net sales for the years ended December 31, 2017, 2016 and 2015, respectively. The Company currently supplies light vehicle turbochargers to many OEMs including BMW, Daimler, Fiat Chrysler Automobiles, Ford, General Motors, Great Wall, Hyundai, Renault, Volkswagen and Volvo. No other single product line accounted for more than 10% of consolidated net sales in any of the years presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 21 INTERIM FINANCIAL INFORMATION (Unaudited)

The following table presents summary quarterly financial data:

(millions of dollars, except per share amounts)	2017					2016				
Quarter ended	Mar-31	Jun-30	Sep-30	Dec-31	Year	Mar-31	Jun-30	Sep-30 (restated) (a)	Dec-31 (restated) (a)	Year (restated) (a)
Net sales	$2,407.0	$2,389.7	$2,416.2	$2,586.4	$9,799.3	$2,268.6	$2,329.2	$2,214.2	$2,259.0	$9,071.0
Cost of sales	1,889.7	1,875.5	1,893.5	2,020.5	7,679.2	1,804.3	1,832.5	1,743.1	1,758.0	7,137.9
Gross profit	517.3	514.2	522.7	565.9	2,120.1	464.3	496.7	471.1	501.0	1,933.1
Selling, general and administrative expenses	218.8	215.0	224.8	239.9	898.5	188.4	202.3	209.7	217.1	817.5
Other expense (income), net	5.8	(0.3)	22.0	117.0	144.5	11.7	25.0	109.9	(9.1)	137.5
Operating income	292.7	299.5	275.9	209.0	1,077.1	264.2	269.4	151.5	293.0	978.1
Equity in affiliates' earnings, net of tax	(9.7)	(14.4)	(14.4)	(12.7)	(51.2)	(9.1)	(10.1)	(12.4)	(11.3)	(42.9)
Interest income	(1.5)	(1.4)	(1.3)	(1.6)	(5.8)	(1.6)	(1.5)	(1.6)	(1.6)	(6.3)
Interest expense and finance charges	18.0	18.0	17.6	16.9	70.5	21.3	21.4	22.4	19.5	84.6
Earnings before income taxes and noncontrolling interest	285.9	297.3	274.0	206.4	1,063.6	253.6	259.6	143.1	286.4	942.7
Provision (benefit) for income taxes	86.3	76.2	79.4	338.4	580.3	80.4	84.2	49.0	92.4	306.0
Net earnings (loss)	199.6	221.1	194.6	(132.0)	483.3	173.2	175.4	94.1	194.0	636.7
Net earnings attributable to the noncontrolling interest, net of tax	10.4	9.1	9.7	14.2	43.4	9.1	11.0	9.8	11.8	41.7
	$189.2	$212.0	$184.9	$(146.2)	$439.9	$164.1	$164.4	$84.3	$182.2	$595.0

Net earnings (loss) attributable to BorgWarner Inc. (b)										
Earnings per share — basic	$0.89	$1.01	$0.88	$(0.70)	$2.09	$0.75	$0.76	$0.40	$0.86	$2.78
Earnings per share — diluted	$0.89	$1.00	$0.88	$(0.70)	$2.08	$0.75	$0.76	$0.39	$0.86	$2.76

____

(a) Certain amounts have been restated to reflect the corrections discussed in Note 1 to the Consolidated Financial Statements.

(b) The Company's results were impacted by the following:

- Quarter ended December 31, 2017: The Company recorded an asset impairment expense of $71.0 million to adjust the net book value of the the pipes and thermostat product lines to fair value. Additionally, the Company recorded restructuring expense of $45.2 million related to Drivetrain and Engine segment actions designed to improve future profitability and competitiveness. The Company also recorded merger and acquisition expense of $3.6 million. The Company recorded reduction of income tax expenses of $8.9 million, $0.7 million and $18.2 million related to the restructuring expense, merger and acquisition expense and asset impairment expense. The Company also recorded a tax expense of $7.9 million related to other one-time tax adjustments. Additionally, the Company recorded a tax expense of $273.5 million for the change in the tax law related to tax effects of the Act.
- Quarter ended September 30, 2017: The Company recorded restructuring expense of $13.3 million primarily related to the initiation of actions within its emissions business in the Engine segment designed to improve future profitability and competitiveness. The Company also recorded merger and acquisition expense of $6.4 million primarily related to the Sevcon transaction. The Company recorded reduction of income tax expenses of $1.2 million related to restructuring expense, $0.3 million merger and acquisition and $5.1 million related to other one-time tax adjustments.
- Quarter ended June 30, 2017: The Company recorded a reduction of income tax expense of $3.2 million related to one-time tax adjustments, primarily resulting from tax audit settlements.
- Quarter ended March 31, 2017: The Company recorded lease termination settlement of $5.3 million related to th termination of a long term property lease in Europe. The Company recorded a tax expense of $3.4 million related to one-time tax adjustments.
- Quarter ended December 31, 2016: The Company recorded asbestos-related adjustments resulting in a net decrease to Other Expense of $47.3 million, which was comprised of actuarial valuation changes associated with the Company's estimate for asserted and unasserted asbestos-related liabilities and a gain from cash received from insolvent insurance carriers, offset by related consulting fees. The Company recorded an intangible asset impairment loss of $12.6 million related to the Engine segment Etatech's ECCOS intellectual technology. Additionally, the Company recorded an incremental loss on divestiture of $20.6 million related to the sale of Remy light vehicle aftermarket business. The Company also recorded merger and acquisition expense of $4.8 million primarily related to the Remy transaction. The Company recorded reduction of income tax expenses of $4.4 million related to intangible asset loss, and $4.9 million related to other one-time tax adjustments, offset by increase of income tax expenses of $17.3 million related to asbestos-related adjustments. The Company also recorded a tax expense of $4.9 million related to the sale of the Remy light vehicle aftermarket business and the reversal of the associated deferred tax balances.

112

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- Quarter ended September 30, 2016: The Company recorded asbestos-related adjustments of $1.2 million resulting from cash received from insolvent insurance carriers and an asset impairment expense of $106.5 million to adjust the net book value of the Remy light vehicle aftermarket business to fair value, based on the anticipated sale price. Additionally, the Company recorded restructuring expense of $1.3 million related to Drivetrain and Engine segment actions designed to improve future profitability and competitiveness. The Company also recorded merger and acquisition expense of $5.9 million primarily related to the Remy transaction. The Company recorded reduction of income tax expenses of $27.6 million related to asset impairment expense, $2.4 million related to other one-time tax adjustments, $0.5 million related to restructuring expense, and $0.4 million related to a gain associated with the release of certain Remy light vehicle aftermarket liabilities due to the expiration of a customer contract, offset by increase of income tax expenses of $0.2 million related to asbestos-related adjustments.
- Quarter ended June 30, 2016: The Company recorded restructuring expense of $19.2 million related to Drivetrain and Engine segment actions designed to improve future profitability and competitiveness. The Company also recorded merger and acquisition expense of $7.2 million primarily related to the Remy transaction. The Company recorded reduction of income tax expenses of $4.4 million related to restructuring expense and $0.3 million related to other one-time tax adjustments, as well as a tax expense of $2.6 million related to a gain associated with the release of certain Remy light vehicle aftermarket liabilities due to the expiration of a customer contract.
- Quarter ended March 31, 2016: The Company recorded restructuring expense of $6.4 million related to Drivetrain and Engine segment actions designed to improve future profitability and competitiveness. The Company also recorded merger and acquisition expense of $5.8 million primarily related to the Remy transaction. The Company recorded reduction of income tax expenses of $1.0 million and $1.0 million associated with restructuring expense and other one-time tax adjustments.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. However, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

The Company has adopted and maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports filed or submitted under the Exchange Act, such as this Form 10-K/A, is collected, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. The Company's disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. As required under Exchange Act Rule 13a-15, the Company's management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are

effective.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management conducted an assessment of the Company's internal control over financial reporting based on the framework and criteria established

113

---

by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). As permitted by Securities and Exchange Commission guidance, management excluded from its assessment of internal control over financial reporting Sevcon, Inc. which was acquired on September 27, 2017 which accounted for 0.6% of consolidated total assets and 0.2% of consolidated net sales as of and for the year ended December 31, 2017. Based on the assessment, management concluded that, as of December 31, 2017, the Company's internal control over financial reporting is effective based on those criteria.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements and the effectiveness of internal control over financial reporting as of December 31, 2017 as stated in its report included herein.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over the financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Consideration of the effects of the restatement on internal control over financial reporting on December 31, 2016 and prior periods

In connection with the Company’s re-evaluation of its accounting for unasserted asbestos-related claims, management identified control deficiencies that existed in 2016 and prior periods relating to the Company's ability to make and properly record a reasonable estimation of asbestos-related claims that have not yet been asserted and their associated costs during those periods. Specifically, the Company did not design and maintain effective controls related to the recording of probable losses from asbestos claims, including determining if reasonable estimates of such claims and costs could be made and whether such estimates should be recorded as a change in accounting estimate or a correction of an error in previous financial statements. These control deficiencies resulted in a restatement of the annual and interim periods of 2016 and annual period of 2015. Additionally, these control deficiencies constituted a material weakness in internal control over financial reporting as of December 31, 2016 that could have resulted in additional misstatements of the asbestos insurance assets, short term and long term asbestos-related liabilities and other expense accounts that would have resulted in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

During 2016, the Company made enhancements to its analytical and review controls for the estimation of probable losses for asbestos claims designed to ensure the financial statements and related disclosures are in accordance with US GAAP. These enhancements included the following:

- additional procedures for the preparation and review of detailed quantitative analysis of trends in the Company's claims data for recent years that supplemented the largely-qualitative analysis that had been performed by the Company in prior periods;
- establishing new procedures to compare the Company's claims experience to external data points; and
- retaining an actuarial consultant to prepare an estimate of the Company’s asbestos-related liabilities for consideration by management and operating existing Company controls over the supervision and review of the actuary's work.

The enhancements the Company made to its internal control over financial reporting in 2016 resulted in a determination that a reasonable estimate of probable losses for asbestos claims could be made and enabled the development of such estimate in accordance with ASC 450. However, the material weakness in the Company's internal control over financial reporting as of December 31, 2016 resulted in the Company incorrectly recording the estimated liability for unasserted asbestos-related claims in 2016 as a change in

114

accounting estimate rather than as a correction of an error in previous financial statements. Management has evaluated the effect of the restatement on the Company's internal control over financial reporting and has determined that the identified material weakness no longer existed subsequent to December 31, 2016 as a result of the enhancements made to the Company’s controls in 2016 and the subsequent changes in the nature and volume of amounts exposed to the deficiency. These enhancements resulted in additional information being made available to management, including improving its ability to assess whether a new estimate represents a change in estimate or correction of error. Management has not identified any other material weaknesses in prior periods or any unremediated material weaknesses as of December 31, 2017. Notwithstanding, management continues to consider opportunities to further enhance existing controls, including to respond to evolving facts and circumstances.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information with respect to directors, executive officers and corporate governance that appears in the Company's proxy statement for its 2018 Annual Meeting of Stockholders under the captions “Election of Directors,” “Information on Nominees for Directors,” “Board Committees,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Code of Ethics,” and “Compensation Committee Report” is incorporated herein by this reference and made a part of this report.

Item 11. Executive Compensation

Information with respect to director and executive compensation that appears in the Company's proxy statement for its 2018 Annual Meeting of Stockholders under the captions “Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” “Executive Compensation,” “Compensation Discussion and Analysis,” “Restricted Stock,” “Long Term Equity Incentives,” and “Change of Control Agreements” is incorporated herein by this reference and made a part of this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information with respect to security ownership and certain beneficial owners and management and related stockholders matters that appears in the Company's proxy statement for its 2018 Annual Meeting of Stockholders under the caption “Security Ownership of Certain Beneficial Owners and Management” is incorporated herein by this reference and made a part of this report.

For information regarding the Company's equity compensation plans, see Item 5 “Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” in this Annual Report on Form 10-K/A.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain relationships and related transactions and director independence that appears in the Company's proxy statement for its 2018 Annual Meeting of Stockholders under the caption “Board of Directors and Its Committees” is incorporated herein by this reference and made a part of this report.

Item 14. Principal Accountant Fees and Services

Information with respect to principal accountant fees and services that appears in the Company's proxy statement for its 2018 Annual Meeting of Stockholders under the caption “Fees Paid to PwC” is incorporated herein by this reference and made a part of this report.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The information required by this Section (a)(3) of Item 15 is set forth on the Exhibit Index that follows the Signatures page of this Form 10-K/A. The information required by this Section (a)(1) of Item 15 is set forth above in Item 8, Financial Statements and Supplementary Data. All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K/A.

Item 16. Form 10-K Summary

Not applicable.

117

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BORGWARNER INC.

By:/s/ Frederic B. Lissalde
Frederic B. Lissalde
President and Chief Executive Officer
Date: September 28, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 28th day of September, 2018.

Signature	Title
/s/ Frederic B. Lissalde Frederic B. Lissalde	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ Ronald T. Hundzinski Ronald T. Hundzinski	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Anthony D. Hensel Anthony D. Hensel	Vice President and Controller (Principal Accounting Officer)
/s/ Jan Carlson Jan Carlson	Director
/s/ Dennis C. Cuneo Dennis C. Cuneo	Director
/s/ Roger A. Krone Roger A. Krone	Director
/s/ Michael	

S.
Hanley
Michael
S. Director
Hanley

/s/
John
R.
McKernan,
Jr.
John
R. Director
McKernan,
Jr.

/s/
Deborah
D.
McWhinney
Deborah
D. Director
McWhinney

/s/
Paul
A.
Mascarenas
Paul
A. Director
Mascarenas

/s/
Alexis
P.
Michas
Alexis
P. Director and Non-Executive Chairman
Michas

/s/
Vicki
L.
Sato
Vicki
L. Director
Sato

/s/
Thomas
T.

Stallkamp
Thomas
TDirector
Stallkamp

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1/4.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
3.2	Amended and Restated By-Laws of the Company, as amended through June 9, 2017 (incorporated by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
4.1	Indenture, dated as of February 15, 1999 between Borg-Warner Automotive, Inc. and The Bank of New York Mellon Trust Company, N.A. (successor in interest to The First National Bank of Chicago), as trustee (incorporated by reference to Exhibit No. 4.5 to the Company's Registration Statement No. 333-172198 filed on February 11, 2011).
4.2	Indenture, dated as of September 23, 1999 between Borg-Warner Automotive, Inc. and The Bank of New York Mellon Trust Company, N.A. (successor in interest to Chase Manhattan Trust Company, National Association), as trustee (incorporated by reference to Exhibit No. 4.6 to the Company's Registration Statement 333-172198 filed on February 11, 2011).
4.3	Third Supplemental Indenture dated as of September 16, 2010 between the Company and The Bank of New York Mellon Trust Company, N.A., as the indenture trustee (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement 333-172198 filed on February 11, 2011).
4.4	Fourth Supplemental Indenture dated as of March 16, 2015, between the Company and The Bank of New York Mellon Trust Company, N.A., as the indenture trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 16, 2015).
4.5	Fifth Supplemental Indenture dated as of November 6, 2015, between the Company and Deutsche Bank Trust Company Americas, as the indenture trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed November 6, 2015).
10.1	Third Amended and Restated Credit Agreement dated as of June 29, 2017, among the Company, as borrower, the Administrative Agent named therein, and the Lenders that are parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 30, 2017).
†10.2	BorgWarner Inc. 2014 Stock Incentive Plan (incorporated by reference to Annex A to the Company’s Definitive Proxy Statement filed March 21, 2014).
†10.3	First Amendment to the BorgWarner Inc. 2014 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 2, 2016).
†10.4	Form of 2017 BorgWarner Inc. 2014 Stock Incentive Plan Performance Share Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).
†10.5	Form of 2017 BorgWarner Inc. 2014 Stock Incentive Plan Restricted Stock Agreement for Employees (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).

A - 1

Exhibit Number	Description
†10.6	Form of 2017 BorgWarner Inc. 2014 Stock Incentive Plan Stock Units Award Agreement for Non-U.S. Employees (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).
†10.7	Form of February 2016 RRG BorgWarner Inc. 2014 Stock Incentive Plan Performance Share Award Agreement (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
†10.8	Form of February 2016 BorgWarner Inc. 2014 Stock Incentive Plan Performance Share Award Agreement (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
†10.9	Form of April 2015 BorgWarner Inc. 2014 Stock Incentive Plan Restricted Stock Agreement for Employees (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
†10.10	Form of April 2015 BorgWarner Inc. 2014 Stock Incentive Plan Stock Units Award Agreement for Non-U.S. Employees (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
†10.11	Form of BorgWarner Inc. 2014 Stock Incentive Plan Restricted Stock Agreement for Employees (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
†10.12	Form of BorgWarner Inc. 2014 Stock Incentive Plan Performance Share Award Agreement (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
†10.13	Form of BorgWarner Inc. 2014 Stock Incentive Plan Stock Units Award Agreement -- Non-U.S. Employees (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
†10.14	Form of 2017 BorgWarner Inc. 2014 Stock Incentive Plan Restricted Stock Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
†10.15	Form of 2017 BorgWarner Inc. 2014 Stock Incentive Plan Stock Units Award Agreement for Non-U.S. Directors (incorporated by reference to Exhibit 10.2of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
†10.16	Amended and Restated Executive Incentive Plan as amended, restated, and renamed effective April 26, 2015 (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed March 20, 2015).
†10.17	Amended and Restated BorgWarner Inc. Management Incentive Bonus Plan effective as of December 31, 2008 (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).

†10.18	BorgWarner Inc. Retirement Savings Excess Benefit Plan amended and restated effective January 1, 2009 (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).

A - 2

Exhibit Number	Description
†10.19	BorgWarner Inc. Board of Directors Deferred Compensation Plan as amended and restated effective January 1, 2009 (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
†10.20	First Amendment dated as of November 22, 2010 to BorgWarner Inc. Board of Directors Deferred Compensation Plan (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
†10.21	Second Amendment dated as of August 1, 2016 to BorgWarner Inc. Board of Directors Deferred Compensation Plan. (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016).
†10.22	Form of Amended and Restated Change of Control Employment Agreement for Executive Officers (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
†10.23	Form of Amended and Restated Change of Control Employment Agreement for Executive Officers (effective 2009) (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
†10.24	BorgWarner Inc. 2004 Deferred Compensation Plan as amended and restated effective January 1, 2009 (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
10.25	Distribution and Indemnity Agreement dated January 27, 1993 between Borg-Warner Automotive, Inc. and Borg-Warner Security.*
10.26	Assignment of Trademarks and License Agreement.*
10.27	Amendment to Assignment of Trademarks and License Agreement.*
21.1	Subsidiaries of the Company.*
23.1	Independent Registered Public Accounting Firm's Consent.*
31.1	Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification by Principal Financial Officer.*
32.1	Section 1350 Certifications.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*

101.LAB XBRL Taxonomy Extension Label Linkbase Document.*

A - 3

Exhibit Number	Description
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

*Filed herewith.
† Indicates a management contract or compensatory plan or arrangement.