

BorgWarner Inc.
Board of Directors Corporate Governance Guidelines

The following guidelines have been approved by the board of directors and, along with the charters and key practices of the board committees, provide the framework for the governance of the Company. The board recognizes that there is an ongoing and energetic debate about corporate governance, and it will review these guidelines and other aspects of governance annually or more often if deemed necessary.

1) Selection of Chairman and CEO

The Board does not have a policy, one way or the other, on whether or not the role of the Chief Executive and Chairman should be separate and, if it is to be separate, whether the Chairman should be selected from the non-employee Directors or be an employee.

The Board should be free to make this choice any way that seems best for the Company at a given point in time.

2) Director Responsibilities / Committees

Directors are expected to use their best efforts to personally attend the annual meeting of stockholders, all Board and committee meetings on which they serve, to review advance materials distributed prior to such meetings and to otherwise be prepared to participate actively at such meetings. If a director cannot attend meetings in person due to travel issues, schedule conflicts or similar reasons, the director may attend by phone.

The Board has the following primary committees: Executive, Audit, Compensation and Corporate Governance. The Board has the flexibility to form a new committee or disband a current committee. It is required that only independent directors serve on the Audit, Compensation and Corporate Governance Committees.

The **Executive Committee** has authority to act for the Board on most matters during intervals between Board meetings but is expected to be used only when the arrangement of a telephonic meeting of the Board is not reasonably possible.

The **Audit Committee** is responsible for providing assistance to the Board of Directors in monitoring:

- (i) the integrity of the financial statements of the Company,

- (ii) the independent auditor's qualifications and independence,
- (iii) the performance of the Company's internal audit function and independent auditors,
- (iv) compliance by the Company with legal and regulatory requirements, and
- (v) the Board's oversight of the Company's risk management programs.

The **Compensation Committee** determines executive compensation philosophy and strategy and cash remuneration arrangements for the highest paid executives, and supervises the administration of the Company's incentive compensation plans.

The **Corporate Governance Committee** ensures that the Board of Directors and its Committees are structured to best serve the Company's practices and objectives; reviews and makes recommendations to the Board regarding Board and Committee composition and structure and presents qualified candidates to the Board for election as Directors; determines, subject to Board approval, Directors' fees and reimbursable expenses; and makes appropriate recommendations to the Board in light of corporate governance developments.

3) **Board Compensation**

The Company's management monitors the status of the Board's compensation in relation to other public companies of similar size and/or complexity. Changes in compensation are recommended by the Corporate Governance Committee for action by the full Board. It is the Board's view that a compensation system should allow the Company to attract and retain competent and qualified directors. For board service, non-employee directors receive an annual retainer and annual grants of shares of restricted stock of the Company with restrictions expiring on the first anniversary of the grants. Committee members receive annual retainers for each committee on which they serve, with chairpeople receiving slightly greater retainers.

4) **Selection of Agenda Items for the Board Meetings**

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer) will establish the agenda for each Board meeting.

At the beginning of the year, the Chairman and Chief Executive Officer will establish a schedule of agenda subjects to be discussed during the year.

Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting.

5) **Board Materials Distributed in Advance**

It is the sense of the Board that information and data that is important to the Board's understanding of the business should be distributed in writing to the Board before the Board meets. The Management will make every attempt to see that this material effectively furnishes the desired information.

6) **Presentations**

As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which the subject matter is too sensitive to put in writing, the presentation will be discussed at the meeting.

7) **Attendance of Non-Directors at Board Meeting**

The Chairman and the Chief Executive Officer may invite senior officers to regularly attend Board meetings or portions thereof for specific purposes.

8) **Executive Sessions of Independent Directors**

The independent directors will meet in executive session at least twice annually following regular meetings of the Board. The format of these meetings may include a discussion with the Chief Executive Officer on each occasion.

9) **Non-Executive Chairman**

It is the sense of the Board that a non-employee director should be selected by the independent directors to serve as Non-Executive Chairman with the following responsibilities:

- facilitating discussion among the independent directors on key issues and concerns outside of board meetings;

- consulting with the CEO and independent directors regarding board agenda items;
- approving the scheduling of Board meetings and approving the agenda and materials for each Board meeting and executive session of the Board's non-employee, independent directors;
- presiding over all meetings of the Board;
- communicating with stockholders as appropriate;
- overseeing the annual CEO, full board and individual director evaluation process;
- other responsibilities which the independent directors as a whole might designate from time to time.

The performance of the non-executive chairman shall be assessed annually by the Corporate Governance Committee.

10) Board Access to Senior Management and Independent Advisors

Board members have complete access to the Company's Management, legal and internal audit staffs and at the Board's sole discretion, independent advisors.

It is assumed that Board members will use judgment to be sure that this contact is not distracting to the business operations of the Company and that such contact, if in writing, be copied to the Chief Executive Officer.

The Board encourages the Management to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future potential that the senior Management believes should be given exposure to the Board.

11) Size of the Board

It is the sense of the Board that a size of 8 to 12 members is about right for the Company in light of its size and the complexity of its businesses.

12) Mix of Inside and Independent Directors

The Board believes that as a matter of policy there should be a substantial majority of independent directors on the Company's Board. The Board is willing to have members of Management, in addition to the Chief Executive Officer, as Directors. Directors who do not satisfy the Independence definition also make valuable contributions to the board and the Company by reason of their experience and wisdom.

13) Board Definition of What Constitutes "Independence" of Outside Directors

The Board will not consider a director to be independent if the director

- (a) has a material relationship with the Company;
- (b) is an employee or was within the last three years an employee of the Company or whose immediate family member is or was within the last three years an employee of the Company;
- (c) is or was an executive within the last three years or whose immediate family member is or was an executive within the last three years of an entity on whose compensation committee any of the Company's executives served,
- (d) received or whose immediate family received more than \$120,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) within the last three years;
- (e) is affiliated with or employed by, or whose immediate family member is a current partner of the internal or external auditor of the Company, is a current employee of such a firm and personally works on the Company's audit or was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time;
- (f) is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues within the last three years; or
- (g) is considered not to be an independent director by relevant statute or

regulation. In those instances in which a non-employee director has a relationship with the Company or any of its subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company or any of its subsidiaries), the Board will determine whether the relationship is material such as to warrant a determination that the director should not be considered independent.

The ownership of stock in the Company by Directors is encouraged and the ownership of a substantial amount of stock by an individual director is not in itself a basis for director to be considered not independent.

14) Directors Who Change Their Job Responsibility or Public Company Board Service

It is the sense of the Board that individual directors who change the responsibility they held when they were elected to the Board should volunteer to resign from the Board. It is not the sense of the Board that the directors who retire or change from the position they held when they came on the board should necessarily leave the Board. There should, however, be an opportunity for the Board, via the Corporate Governance Committee, to review the continued appropriateness of Board membership under these circumstances.

Directors are urged to inform the Corporate Governance Chair if they become aware that their job responsibility or public company board assignments are about to change from those reflected in their most recent biography submitted to the Company.

When the Chief Executive Officer, Chief Operating Officer or other employee director is terminated for any reason or no longer holds their position, resignation from the Board must be offered at the same time. Such resignation may be accepted or rejected by the Board.

15) Succession Planning

The Board is responsible for planning for succession of the Chief Executive Officer. On at least an annual basis, the Board will review succession for the CEO and Senior Executive Team, including backgrounds, capabilities and development opportunities for potential successors.

There should also be available, on a continuing basis, the Chief Executive Officer's recommendation of a successor should the Chief Executive Officer be unexpectedly disabled.

16) Board Interaction with Institutional Investors, The Press, Customers and Others

The Board believes that the Management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected that Board members would do this with the knowledge of the Management or the entire Board and, absent unusual circumstances, only at the request of Management or the entire Board.

17) Confidentiality

The proceedings and deliberations of the Board and its Committees are to remain confidential. Each Director shall maintain the confidentiality of information received in connection with service as a director.

18) Stock Ownership by Non-Employee Directors

Each non-employee director of the Company is expected to invest in the Company's stock an amount equal to 5 times the amount of annual cash retainer paid to directors, within 5 years of joining the Board of Directors of the Company. Directors are encouraged to increase their investment commensurate with any increase in the annual cash retainer for board service.

Each of the following will be considered to be investments in fulfillment of the stock ownership expectation:

- BorgWarner stock wholly purchased and owned by the non-employee director in his/her name or in a "streetname".
- BorgWarner stock received as annual equity compensation for board service.
- Investments in BorgWarner stock units made through the BorgWarner Directors' Deferred Compensation Plan
- BorgWarner stock held by the non-employee director's legal spouse or legally dependent children living in the non-employee director's household
- BorgWarner stock held by immediate family members residing in the same household or through trusts for the benefit of the person or his or her immediate family members.

Unvested restricted stock, unvested restricted stock units, unexercised stock

options and stock appreciation rights will not be counted towards fulfilling the ownership expectation.

19) Term Limits

The Board does not believe it should establish term limits. Such limits hold the disadvantage of losing the contributions of directors who have developed, over a period of time, increasing insight into the Company, its operations and people. As an alternative to term limits, each director's continuation on the Board is formally reviewed by the Corporate Governance Committee, Non-Executive Chairman and CEO prior to the expiration of the director's elected term.

20) Director Retirement

Directors who have achieved their 72d birthday by the date of the annual stockholder's meeting at which they would stand for re-election, will not be eligible to stand for re-election, unless the Board of Directors determines in its sole discretion that it is in the Company's best interest due to extenuating circumstances, to allow a specific person to be nominated to serve one or more terms thereafter. Directors are encouraged to complete any term begun before their 72d birthday before retiring from the Company's Board of Directors.

21) Board Orientation and Continuing Education

An orientation presentation is provided to each new director to acquaint new directors with the business, to familiarize them with finance, audit and human resources, compliance and other policies, and to acquaint them with other issues relevant to directors. On a periodic basis, continuing education is provided on relevant topics at Board meetings. At a director's discretion, he or she may, with Corporate Governance Committee approval, attend certified continuing education programs at the Company's expense.

22) Evaluation

The Board shall conduct a self-evaluation, an evaluation of individual non-employee directors, an evaluation of each key committee and an evaluation of the CEO, at least annually to assess whether the board, its directors, its committees and CEO are functioning effectively.

The Corporate Governance Committee is responsible to report annually to the Board assessment of the overall effectiveness of the full Board, the CEO, the

Non-Executive Chairman and of each key committee.

23) Service on Other Public Company Boards

It is the sense of the Board that non-employee directors should limit the number of public companies on whose boards they serve to four or fewer. Membership on more than four public company boards by a director of BorgWarner for exceptional reasons requires prior approval by the Corporate Governance Committee or its chairperson.

Directors who also serve as CEOs of public companies, or in equivalent positions, should not serve on more than two boards of public companies in addition to the BorgWarner board.

Directors of BorgWarner are expected to notify the Corporate Governance Committee in writing before accepting election or appointment to any public company board on which they did not serve when appointed to the BorgWarner Board of Directors.

24) Loans to Directors and Executive Officers

It is the policy of the Company not to make any personal loans to its directors or executive officers.

25) Ethics and Conflicts of Interest

The Board expects all directors, as well as officers and employees, to act ethically at all times and to adhere to BorgWarner's Code of Ethical Conduct. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chairman. If a significant conflict exists and cannot be resolved, the director should resign. All directors will recuse themselves from any discussions or decisions affecting their personal business interests. Any waiver of the Code of Ethical conduct for a director or CEO, CFO, Treasurer or Controller may be made only by the Board of Directors or the Audit Committee of the Board of Directors.

26) Director Elections

- a) Nominees for election to the Board of Directors are expected to provide all information, including completion of a questionnaire regarding the nominee's qualifications, required by the Company's Amended and

Restated By-laws.

- b) In accordance with the Company's Amended and Restated By-Laws, if none of our stockholders provides the Company notice of an intention to nominate one or more candidates to compete with the Board's nominees in a Director election, or if our stockholders have withdrawn all such nominations by the tenth day before the Company mails its notice of meeting to our stockholders, a nominee must receive more votes cast for than against his or her election or re-election in order to be elected or re-elected to the Board. A Director shall tender his or her resignation if he or she fails to receive the required number of votes for re-election. The Board shall nominate for election or re-election as Director only candidates who agree to tender, promptly following the annual meeting at which they are elected or re-elected as Director, irrevocable resignations that will be effective upon (i) the failure to receive the required vote at the next annual meeting at which they face re-election and (ii) Board acceptance of such resignation. In addition, the Board shall fill Director vacancies and new directorships only with candidates who agree to tender, promptly following their appointment to the Board, the same form of resignation tendered by other Directors in accordance with the Board Practice.

If an incumbent Director fails to receive the required vote for re-election, the Corporate Governance Committee will act on an expedited basis to determine whether to accept the Director's resignation and will submit such recommendation for prompt consideration by the Board. The Board expects the Director whose resignation is under consideration to abstain from participating in any decision regarding that resignation. The Corporate Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept a Director's resignation.