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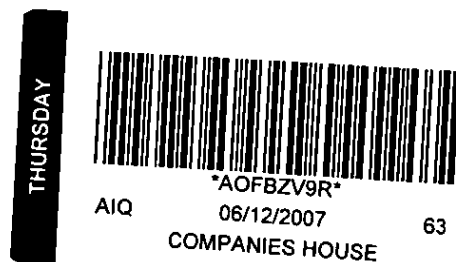
# **Joint Supervisors' Annual Report to Creditors**

## **Federal-Mogul Friction Products Limited - Company Voluntary Arrangement**

**5 December 2007**



# **KROLL**



**FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY  
ARRANGEMENT (CVA)**

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**FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY ARRANGEMENT (CVA)**

**1 Introduction**

- 1 1 You will recall that I was appointed Joint Supervisor of Federal-Mogul Friction Products Limited (the **Company**)'s CVA, together with my partners, A O'Keefe and S Mackellar, on 11 October 2006
- 1 2 This report is our first annual report and provides an update on the progress of the CVA in accordance with Rule 1 26 of the Insolvency Rules 1986 At Appendix A, we have provided an account of our Receipts and Payments for the year ended 10 October 2007

**2 Realisation of Assets**

***Voluntary Contributions***

- 2 1 In accordance with the CVA proposal, at the start of the CVA a reserve was established with a deposit of £48,788,800 This is being used to pay dividends to the creditors of the Company
- 2 2 Interest is being accrued for the benefit of the CVA from the date the CVA became effective Interest received to date totals £1,693,430

**3 Creditors**

***Preferential Creditors***

- 3 1 We can confirm that all preferential creditors' claims have been agreed and paid in full The details of which are given in the table below

	Agreed Claims £
HM Revenue & Customs – PAYE/NIC	1,337,752
HM Revenue & Customs – VAT	1,325,219
	<b>2,662,971</b>

***Unsecured Creditors***

***Trade Creditors***

- 3 2 The process of reviewing and agreeing creditor claims is almost complete. As indicated at the CVA creditors meeting all creditors will receive a dividend of 100p/£. To date we have agreed 534 claims totalling £2,623,119. We have paid out a total of £2,595,914 representing a dividend of 100p/£ to 524 creditors. In addition, we have recently agreed a further 10 creditor's claims totalling £27,205 and they will be receiving their dividend payment in the near future. We currently only have three claims that have not been agreed and they total £21,097. We estimate that total claims will be in the region of £2,644,200.

***S75 Pension Creditors***

- 3 3 Historically, the Company was a participating employer in the T&N Retirement Benefits Scheme (1989) (**T&N Pension Scheme**). There was a large funding deficit in the T&N Pension Scheme on a winding up basis. When the CVA proposals were mailed to creditors, the T&N Pension Scheme entered an assessment period to determine if it is eligible for entry to the Pension Protection Fund (**PPF**). If it is accepted into the PPF, the Company's employees will receive a minimum guaranteed level of pension.
- 3 4 As the T&N Pension Scheme has a funding deficit on a winding up basis, it has a claim under section 75 of the Pensions Act 1995 against the Company for the amount of that deficit. Since the T&N Pension Scheme is in a PPF assessment period, the law treats the PPF as the creditor in the Company's CVA.
- 3 5 Despite extensive negotiations and a willingness on the part of both the Supervisors and the PPF to reach an agreement on the level of the section 75 liability, there remain two key unresolved issues. These issues significantly impact the potential level of the liability and at the date of this report, a satisfactory agreement has not been reached. In order to progress the matter we have made an application to the High Court for determination of the two key issues. The hearing is due to take place in December 2007.
- 3 6 In accordance with the terms of the CVA proposals, the section 75 claim against the Company was capped at £32,890,000. We can confirm that a claim of £30,757,000 has been received from the PPF and that an interim dividend of £22,145,040 has been paid representing a dividend of 100p/£. This dividend is based on a reduced claim value (72% of the PPF claim), which has been agreed with the PPF for interim dividend purposes only.

***Asbestos Personal Injury Claimants***

- 3 7 The Company and a number of its affiliates were historically involved in the production of asbestos products. Exposure to asbestos can cause illnesses such as asbestosis and mesothelioma. Those illnesses can take several decades to develop and become apparent.

## FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY ARRANGEMENT (CVA)

Former employees (and certain other people) who develop asbestos illnesses may be entitled to claim compensation from the Company

- 3 8 Under the terms of the CVA, claims from Asbestos Personal Injury claimants are dealt with by The T&N Asbestos Trustee Company Limited (the **Trustee**). However, the Company then reimburses the Trustee for any payments made. All claims have been reviewed in detail by the Trustee in line with the Trust Distribution Procedure. To date, the Company has reimbursed the Trust £587,789 in respect of claims from Asbestos Personal Injury claimants.
- 3 9 Claims for compensation might continue to be made against the Company for many years to come, but the CVAs themselves are only likely to remain open for one further year. To ensure that compensation will still be available after the CVAs end, the Trustee will continue to deal with claims for many years to come.
- 3 10 If you think you are entitled to make a claim in the UK Asbestos Trust or if you require an annual report on the UK Asbestos Trust and EL Trust, please contact

T&N Asbestos Trustee Company Limited  
Suite 11b  
Manchester International Office Centre  
Styal Road  
Manchester  
M22 5WB

### *Non-Asbestos Personal Injury Claims*

- 3 11 To date nine potential claims have been received in respect of Non-Asbestos Personal Injury claims with an estimated claim value of £220,300. We believe that most of these claims will eventually be handled by the Company's insurers. None of the claims have been agreed due to either a lack of supporting documentation, or the fact that a claim has also been made directly against the insurers. We are in the process of writing to all potential claimants to confirm the current position in respect of their claim, whether they intend to pursue the insurers directly rather than claiming in the CVA and request additional evidence as appropriate.

## **4 Supervisors' Remuneration**

- 4 1 The CVA Proposals stated that a Remuneration Reserve shall be established in order to pay the Supervisors' remuneration. This Reserve is separate from the funds available to the

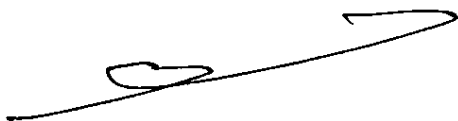
**FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY  
ARRANGEMENT (CVA)**

creditors and has no impact on the level of dividends that are ultimately available for the Company's creditors. The CVA provides that our remuneration will be based upon the time costs of the Supervisors' and their staff in executing the CVA.

- 4.2 The Joint Supervisors' time costs as at 10 October 2007 total £91,475. This represents 527.2 hours at an average rate of £174 per hour. To date, £90,326 plus VAT has been drawn on account of these fees. As stated above, these fees have been drawn from the Remuneration Reserve and are therefore not reflected on the Receipts and Payments account attached at Appendix A. Attached as Appendix B is a Time Analysis in accordance with the provisions of Statement of Insolvency Practice 9 (**SIP9**), which provides details of the activity costs incurred by staff grade to date.
- 4.3 Please note that when time has been incurred in tasks which relate to a number of Federal-Mogul Group companies which are in CVA, it has not been possible to allocate this time to individual companies and accordingly it has been charged to T&N Limited rather than the individual company. As part of the CVA proposals for all of the T&N companies, a central fee reserve has been set up and the effect of this is that fees drawn will not impact on the level of dividend to the creditors of T&N Limited or the individual company.
- 4.4 Attached, as Appendix C is additional information in relation to our policy on staffing, the use of sub-contractors and re-charging of disbursements.
- 4.5 Finally, we continue to agree the claims of unsecured creditors and distribute dividends to creditors whose claims have been agreed. We would hope to be in a position to close the CVA shortly after its second anniversary.

Should you require further information, please do not hesitate to contact Melissa Doherty of this office.

Yours faithfully



**J J Gleave**  
Joint Supervisor

Enc

**FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY  
ARRANGEMENT (CVA)**

**Receipts and Payments Account for the Period from 11 October 2006  
to 10 October 2007**

**Appendix A**

**Voluntary Arrangement of Federal Mogul Friction Products Limited**

	£	£
<b>FLOATING REALISATIONS</b>		
Surplus from Administration	48,788,800 00	
Bank Interest Gross	<u>1,693,430 14</u>	50,482,230 14
<b>FLOATING COSTS</b>		
Bank Charges	<u>20 00</u>	(20 00)
<b>PREFERENTIAL CREDITORS</b>		
HMRC - VAT	1,325,219 02	
HMRC - PAYE/NIC	<u>1,337,751 95</u>	(2,662,970 97)
<b>UNSECURED CREDITORS</b>		
Trade & Expense	2,595,913 90	
Asbestos Creditors	587,789 00	
S75 Pension Dividend	<u>22,145,040 00</u>	(25,328,742 90)
		<u><u><b>22,490,496 27</b></u></u>
<b>REPRESENTED BY</b>		
Dividend account		3,931 61
Floating Deposit Account		59,553 77
Money Market		12,243,661 84
Yorkshire Bank		10,183,349 05
		<u><u><b>22,490,496.27</b></u></u>

In accordance with the requirements of Statement of Insolvency Practice 7, I should advise that  
the Supervisors' fees have been paid from a separate Remuneration Reserve  
Fees drawn to date total £90,325 50 plus VAT

**FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY ARRANGEMENT (CVA)**

**Time Analysis for the Period from 11 October 2006 to 10 October 2007**

**Appendix B**

Federal Mogul Friction Products Limited

FM09ASM

SIP 9

	Employee Grade					(£'s)	
	(Hours)				Total Hours	Total Cost	Average Rate p/h
	Partner/ Director	Senior Associate	Associate/ Analyst	Junior Analysts/Support			
<b>Administration and Planning</b>							
Strategy and Control	3 8	2 6	30 6	5 2	42 2	9,728 00	231
Bank and Creditor Reporting	-	8 0	4 3	0 2	12 5	3,446 00	276
Creditors Committee	-	-	-	-	-	-	-
Statutory Duties	-	0 1	-	0 7	0 8	138 00	173
Job Administration	0 1	14 7	3 0	32 4	50 2	8,644 00	172
Cash Accounting and Time Records	0 4	1 2	3 0	10 6	15 2	3,175 50	209
Travel and Waiting Time	-	-	-	0 2	0 2	15 00	75
Case Closure	-	-	-	-	-	-	-
Internal Documentation and IT	2 8	-	-	2 5	5 3	1,643 50	310
<b>Investigations</b>							
D Reports	-	-	-	-	-	-	-
Other Investigations	-	-	-	-	-	-	-
Internal Documentation	-	-	-	-	-	-	-
<b>Realisation of Assets - Fixed Charge</b>							
Initial Actions and Valuations	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Litigation	-	-	-	-	-	-	-
Internal and External Documentation	-	-	-	-	-	-	-
<b>Realisation of Assets - Debtors</b>							
Debt Collection	-	-	-	-	-	-	-
Debtors Litigation	-	-	-	-	-	-	-
Crown Debtors	-	-	-	-	-	-	-
Internal and External Documentation	-	-	-	-	-	-	-
<b>Realisation of Assets - Floating Charge</b>							
Initial Actions and Valuations	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Retention of Title	-	-	-	-	-	-	-
Hire Purchase / Leased Assets	-	-	-	-	-	-	-
Litigation	-	-	-	-	-	-	-
Internal and External Communications	-	-	-	-	-	-	-
<b>Trading</b>							
Initial Actions	-	-	-	-	-	-	-
Cash Accounting	-	-	-	-	-	-	-
Ongoing Trading Activities	-	-	-	-	-	-	-
Internal and External Communications	-	-	-	-	-	-	-
<b>Creditors</b>							
Creditor Dealings	1 4	-	13 8	93 2	108 4	10,999 00	101
Creditor claims	6 9	46 0	120 7	113 9	287 5	52,933 00	184
Litigation	-	-	-	-	-	-	-
Shareholders / Bankrupts	-	-	-	-	-	-	-
Internal Documentation	-	-	3 0	-	3 0	610 00	203
Employees	-	-	-	1 9	1 9	142 50	75
Employee Communications	-	-	-	-	-	-	-
<b>Totals</b>	<b>15 4</b>	<b>72 6</b>	<b>178 4</b>	<b>260 8</b>	<b>527 2</b>	<b>91,474 50</b>	<b>174</b>



**Additional Information in Relation to Supervisors' Fees Pursuant to  
Statement of Insolvency Practice 9**

**Appendix C**

**1 Policy**

Detailed below is Kroll's policy in relation to

- staff allocation and the use of sub-contractors,
- professional advisors, and
- disbursements

**1.1 Staff Allocation and the use of Sub-contractors**

Our general approach to resourcing our assignments is to allocate staff with the skills and experience to meet the specific requirements of the case

The constitution of the case team will usually consist of a Partner, Senior Associate, Associate and Analyst. The exact constitution of the case team will depend on the anticipated size and complexity of the assignment and on larger, more complex cases, several Associates/Analysts may be allocated to meet the demands of the case

With regard to support staff, we would advise that time spent by cashiers in relation to specific tasks on an assignment is charged. Only if there is a large block of time incurred by a member of the secretarial team, eg, report compilation and distribution, do we seek to charge and recover our time in this regard

We have not utilised the services of any sub-contractors in this case

**Professional Advisors**

On this assignment we have used the professional advisors listed below. We have also indicated alongside, the basis of our fee arrangement with them, which is subject to review on a regular basis

<b>Name of Professional Advisor</b>	<b>Basis of Fee Arrangement</b>
DWS (legal advice)	Hourly rate and disbursements

Our choice was based on our perception of their experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of our fee arrangement with them

**FEDERAL-MOGUL FRICTION PRODUCTS LIMITED - COMPANY VOLUNTARY  
ARRANGEMENT (CVA)**

**1.2 Disbursements**

Category 1 disbursements The type of disbursements that may be charged as a Category 1 disbursement to a case generally comprise of external supplies of incidental services specifically identifiable to the case, such as postage, case advertising, invoiced travel and external printing, room hire and document storage Also chargeable will be any properly reimbursed expenses incurred by personnel in connection with the case

**2 Charge-out Rates**

With effect from 1 January 2007, certain job titles within our organisation have been re-classified and the new grade titles are shown within the table below These changes do not affect the rates our staff are being charged out at with the exception of staff previously classified as Administrators This grade has now been re-classified to Analyst and as a consequence, the charge out rate as from 1 January 2007 for this level of staff has been increased by an average of £45 per hour

A schedule of Kroll charge-out rates effective from 1 January 2007 is detailed below

	(Per hour) £
<b>Partner/Director</b>	
Partner 1	475
Partner 2	425
Director	395
<b>Senior Associate</b>	
Senior Associate 1	350
Senior Associate 2	325
<b>Associate/Analyst</b>	
Associate	270
Analyst	240
<b>Junior Analyst and Support Staff</b>	
Junior Analyst	125
Senior Treasury Associate	185
Treasury Associate	125
Treasury Analyst	75
Support	75