

AE Dayton Services Limited

Company Number 478002

Directors' Report for the Year Ended 31 December 2006

Administration

On 1 October 2001, the Company's ultimate parent undertaking, Federal-Mogul Corporation and its subsidiaries in the United States voluntarily filed for financial restructuring under Chapter 11 of the US Bankruptcy Code. In addition, the majority of Federal-Mogul subsidiaries in the United Kingdom, including the Company, filed jointly for Chapter 11 and Administration under the UK Insolvency Act 1986.

On 26 September 2005, the Administrators entered into a Global Settlement Agreement with Federal-Mogul Corporation, the Plan Proponents and the Pension Protection Fund. The Agreement allowed Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves used by the Administrators to provide distributions to creditors.

On 10 July 2006 the Administrators issued to the creditors their proposals for Company Voluntary Arrangements ("CVAs") for the Company and 50 other UK filing subsidiaries. These proposals were approved at the shareholders and creditors meeting held on 7 September 2006 and were confirmed by the UK Court on 11 October 2006. This had the effect on the Company of a reduction in the net pre-filing payable balances to group companies of 99.2%, therefore a write-back of £5,988,012 has been made in the profit and loss account. In addition, a CVA claims reserve of £10,000 has been created in accordance with the CVA.

On 1 December 2006, 64 of the UK filing companies, including the Company, exited from UK administration.

Activities

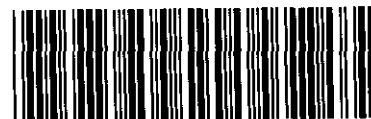
The Company has not traded during the year. In addition to the CVA related income of £5,978,012, it has exchange differences on inter-company accounts and an overseas deposit account resulting in an exchange loss of £28. It has made a provision of £50,983 against investments in subsidiary undertakings and has released revaluation reserves of £567,922. Its profit for the year is £5,926,997 (2005: loss of £61). The directors do not recommend a dividend (2005: £nil).

Directors

The following served as Directors during (and, unless otherwise indicated, throughout) the year:

J. H. Devonald

MONDAY



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29/10/2007

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COMPANIES HOUSE

AE Dayton Services Limited

Company Number 478002

Directors' Report for the Year Ended 31 December 2006 (continued)

Directors' Interests

There are no directors' interests requiring disclosure under the Companies Act 1985.

Completeness of information to Auditors

In accordance with Section 234ZA of the Companies Act 1985 each of the directors:

- is not aware of any relevant audit information of which the Company's auditors are unaware;  
and
- has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

*On behalf of the Board*

Director

JH Devorally

Date:

01 October 2007

## AE DAYTON SERVICES LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AE DAYTON SERVICES LIMITED

We have audited the Company's financial statements (the "financial statements") for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 10. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AE DAYTON SERVICES LIMITED  
(CONTINUED)

Adverse opinion

*Recoverability of Group Balances*

Included in the balance sheet within fixed asset investments is an amount of £nil (2005:£618,909) representing the Company's investments in Federal Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and a filing under Chapter 11 of the US Bankruptcy Code. In our audit report in respect of the previous period, we stated that the Company was unlikely to realise full value from these investments and a provision of up to £618,909 should have been made, increasing the Company's net liabilities by up to that amount. During the current year, a provision of £50,983 was reflected in the profit and loss account and a revaluation reserve of £567,922 was released, and in our opinion, no further provision is required at 31 December 2006.

*Omission of certain disclosures required by Schedule 5 to the Companies Act 1985*

Schedule 5 to the Companies Act 1985 requires, in respect of interests in subsidiaries, and other significant holdings in undertakings held by the Company details of the capital and reserves at the end of the year, and profit or loss for the year. As explained in Note 1, these details have not been given.

Except for the effect on the profit for the year of any adjustments that might have been required to the carrying amounts of the investments at 1 January 2006, in our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of the Company's profit for the year then ended.

Except for the omission of the details of financial information required by Schedule 5 to the Companies Act in respect of interests in subsidiaries and other significant holdings, in all other respect in our opinion:

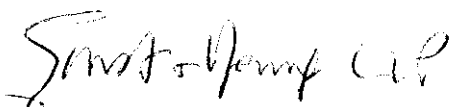
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

In our opinion:

- the information given in the Director's Report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements regarding the filing by the Company for financial restructuring under Chapter 11 of the US Bankruptcy Code. The financial statements are prepared on the going concern basis, the validity of which depends on the outcome of these proceedings. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.



Ernst & Young LLP  
Registered Auditor  
Manchester

25 OCT 2007

AE DAYTON SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
Foreign exchange (loss)		(28)	(61)
Other operating income	3	5,978,012	-
		<hr/>	<hr/>
Operating profit / (loss)		5,977,984	(61)
Provision against investments in subsidiary undertakings	5	(50,983)	-
Write-off investments in subsidiary undertakings	5	(4)	-
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		5,926,997	(61)
Tax on profit/(loss) on ordinary activities	4	-	-
		<hr/>	<hr/>
Profit / (loss) on ordinary activities after taxation		5,926,997	(61)
		<hr/>	<hr/>
Profit / (loss) attributable to shareholders	9	5,926,997	(61)
		<hr/>	<hr/>

There is no difference between the result as disclosed above and the result given by an unmodified historical cost basis.

A reconciliation of movements in shareholders' funds is given in note 9 of the financial statements.

All results have been derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2006 £	2005 £
Profit / (loss) for the financial year		5,926,997	(61)
Release of investment revaluation surplus	9	(567,922)	-
		<hr/>	<hr/>
Total recognised gains and losses relating to the year		5,359,075	(61)
		<hr/>	<hr/>

AE DAYTON SERVICES LIMITED

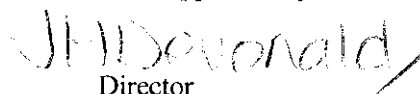
BALANCE SHEET

AS AT 31 DECEMBER 2006

	Notes	2006 £	2005 £
<u>Fixed Assets</u>			
Investments	5	-	618,909
<u>Current Assets</u>			
Cash at bank		256	290
<u>Creditors: amounts falling due within one year</u>	6	(289)	(870)
Net Current Liabilities		(33)	(580)
Total Assets less Current Liabilities		(33)	618,329
<u>Creditors: due after more than one year</u>	7	(59,563)	(6,037,000)
Net liabilities		(59,596)	(5,418,671)
<u>Capital and Reserves</u>			
Called up share capital	8	10,000	10,000
Revaluation reserve	9	-	567,922
Profit and loss account	9	(69,596)	(5,996,593)
Shareholders' funds – (deficit)	9	(59,596)	(5,418,671)

The Company did not trade during the year.

The financial statements on pages 6 to 12 were approved by the Board on 24 October 2007 and were signed on its behalf by:

  
 Director

## AE DAYTON SERVICES LIMITED

### NOTES FORMING PART OF THE ACCOUNTS

#### 1. ACCOUNTING POLICIES

##### (a) Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical cost convention, as modified by revaluation of certain fixed assets.

##### (b) Fundamental Uncertainty

On 1 October 2001, the Company's ultimate parent undertaking, Federal-Mogul Corporation and its subsidiaries in the United States voluntarily filed for financial restructuring under Chapter 11 of the US Bankruptcy Code. In addition, the majority of Federal-Mogul subsidiaries in the United Kingdom, including the Company, filed jointly for Chapter 11 and Administration under the UK Insolvency Act 1986.

On 26 September 2005, the Administrators entered into a Global Settlement Agreement with Federal-Mogul Corporation, the Plan Proponents and the Pension Protection Fund. The Agreement allowed Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves used by the Administrators to provide distributions to creditors.

On 10 July 2006 the Administrators issued to the creditors their proposals for company voluntary arrangements for the Company and 50 other UK filing subsidiaries. These proposals were approved at the shareholders and creditors meeting held on 7 September 2006 and were confirmed by the UK Court on 11 October 2006. This had the effect on the Company of a reduction in the net pre-filing payable balances to group companies of 99.2%, therefore a write-back of £5,988,012 has been made in the profit and loss account. In addition, a CVA claims reserve of £10,000 has been created in accordance with the CVA.

On 1 December 2006, 64 of the UK filing companies, including the Company, exited from UK administration.

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the outcome of the Chapter 11 filings. The directors of Federal-Mogul Corporation have stated that the actions are intended to preserve the companies' businesses and allow a reorganisation of their assets while protecting them from actions by creditors and asbestos claimants. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

The financial statements do not include any adjustments that would result if the outcome of the proceedings was that the Company was unable to continue as a going concern. The directors do not consider it possible to determine the effects on the financial statements with reasonable accuracy, but adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise.

##### (c) Investments

These have been included in the financial statements at cost, as modified by a valuation less provisions for permanent diminution in value. The valuation was determined by the directors as an amount equal to the net tangible asset value of the subsidiary undertaking.



NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(d) Cash Flow Statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Federal-Mogul Corporation, a company which has prepared a consolidated cash flow statement.

(e) Group Accounts

The Company and all of its subsidiary undertakings are included in consolidated accounts for a larger group, Federal-Mogul Corporation, drawn up to the same date in the same financial year and those accounts are drawn up in accordance with the provisions of the Seventh Directive (83/349/EEC) or in a manner equivalent to consolidated accounts and consolidated annual reports so drawn up. Accordingly the Company, in accordance with the exemption in Section 228 (1) (A) of the Companies Act, has not prepared the consolidated financial statements.

**Omission of certain disclosures required by Schedule 5 to the Companies Act 1985**

Companies are required under Schedule 5 to the Companies Act 1985 to provide details of the capital and reserves at the end of the financial year, and profit or loss for the financial year in respect of interests in subsidiaries, and other significant holdings in undertakings held by the Company. In previous years prior to the Administration of the Company on 1 October 2001 this has not been required because Federal-Mogul Global Growth Limited prepared group accounts and this Company and other intermediate holding companies were exempt under s.228 of the Companies Act 1985 from preparing group accounts and providing this information. It has not been practicable to provide this information. The list of subsidiaries and significant holdings is in Note 5 and the information is available in respect of the UK companies from their latest published accounts.

(f) Foreign Currencies

Transactions in foreign currency are recorded at the rate ruling at the date of transaction. Any assets or liabilities denominated in foreign currency are retranslated at the year end rate. Exchange differences on transactions in foreign currencies are included in the profit and loss account.

(g) Fundamental accounting concept

The directors believe it to be appropriate to prepare the accounts on the going concern basis due to the continued financial support provided by the ultimate parent undertaking.

(h) Deferred Taxation

The taxation charge is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax with the following exceptions:

- Provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

AE DAYTON SERVICES LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(h) Deferred Taxation (continued)

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(i) Related Parties

The Company has taken advantage of the exemption in FRS8 Related Party Disclosures from disclosing transactions with related parties that are part of the Federal-Mogul Corporation group.

2. DIRECTORS

The directors have not received any remuneration for services to the Company during the year (2005: £nil).

3. OTHER OPERATING INCOME

A write-back of £5,988,012 has been made against amounts payable to group companies. AE Dayton Services Limited is subject to a Company Voluntary Arrangement and under the terms of the CVA, the balance due by the Company will be recovered at an estimated dividend of 0.821p in the pound, hence the write-back. In addition, a CVA claims reserve of £10,000 has been created in accordance with the CVA.

The impact of the CVA on the balance sheet can be summarised as follows:-

	£
Creditors: amount falling due within one year	575
Creditors: amounts falling due after more than one year	5,977,437
	<u>5,978,012</u>

4. TAXATION

There is no tax charge / (credit) for either the current or prior year.

The tax assessed on the profit / (loss) on ordinary activities for the year is lower than (2005: higher than) the standard rate of corporation tax in the UK. The difference is reconciled below:

	2006 £	2005 £
Profit / (loss) on ordinary activities before tax	<u>5,926,997</u>	<u>(61)</u>
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	1,778,099	(18)
Expenses not deductible for tax purposes	9	18
CVA adjustments not taxable	(1,793,404)	-
Provision against investments not deductible for tax purposes	15,296	-
Tax charge / (credit) for the year	<u>-</u>	<u>-</u>

AE DAYTON SERVICES LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

5. INVESTMENTS

	Subsidiary Undertakings Equity £
<u>Cost or Valuation</u>	
At 1 January 2006	842,000
Disposals	(4)
Revaluation adjustment	(567,922)
At 31 December 2006	<u>274,074</u>
<u>Provisions</u>	
At 1 January 2006	(223,091)
Charge for the year	(50,983)
At 31 December 2006	<u>(274,074)</u>
<u>Net book value</u>	
At 31 December 2006	<u>-</u>
At 31 December 2005	<u>618,909</u>

Revaluation reserves of £567,922 have been released as the assets in the related subsidiaries have suffered a permanent diminution in value.

On a historical cost basis the above investments would have been included at:-

<u>Original Cost</u>	
At 31 December 2005	274,078
At 31 December 2006	<u>274,074</u>
<u>Provisions</u>	
At 31 December 2005	(223,091)
At 31 December 2006	<u>(274,074)</u>

The subsidiaries, all wholly owned and registered in England and Wales are listed below. All listed subsidiaries did not trade during the year.

INVESTMENTS

Awncast Limited  
 Cosmid Limited  
 E W Engineering Limited  
 Inblot Limited  
 Lalton Limited  
 Mobile Distributing (Spares) Limited  
 MTA (Kettering) Limited  
 Pecal Limited  
 T&N Shelf Two Limited  
 Tinblo Limited  
 Tynoda Limited

AE DAYTON SERVICES LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

	2006	2005
	£	£
6. <u>CREDITORS</u> : amounts falling due within one year		
Amounts owed to ultimate parent company	6	870
Amounts owed to fellow subsidiary undertaking	283	-
	<u>289</u>	<u>870</u>

For details of how these balances have been affect by the CVA, see note 3.

	2006	2005
	£	£
7. <u>CREDITORS</u> : amounts due after more than one year		
Loan from subsidiary undertakings	443	54,000
Loans from fellow subsidiary undertakings	59,120	5,983,000
	<u>59,563</u>	<u>6,037,000</u>

For details of how these balances have been affect by the CVA, see note 3.

	2006	2005
	£	£
8. <u>CALLED UP SHARE CAPITAL</u>		
<u>Authorised, issued and fully paid</u>		
5,000 ordinary shares of £1 each	5,000	5,000
5,000 deferred shares of £1 each	5,000	5,000
	<u>10,000</u>	<u>10,000</u>

The deferred shares carry no dividend rights and carry no voting rights at meeting. On winding up of the company, the deferred shareholders rank secondly behind the ordinary shareholders in respect of the amount paid up on the shares.

9. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS - DEFICIT

	Share Capital	Profit and loss Account	Revaluation Reserve	Total
	£	£	£	£
At 1 January 2005	10,000	(5,996,532)	567,922	(5,418,610)
Loss for the year 2005	-	(61)	-	(61)
At 31 December 2005	10,000	(5,996,593)	567,922	(5,418,671)
Profit for the year 2006	-	5,926,997	-	5,926,997
Write-back of revaluation reserve	-	-	(567,922)	(567,922)
At 31 December 2006	10,000	(69,596)	-	(59,596)

10. ULTIMATE PARENT COMPANY

The Company's parent company is AE Limited which is registered in England and Wales. The ultimate parent company and controlling party is Federal-Mogul Corporation which is registered in the United States of America. Copies of the Federal-Mogul Corporation Annual Report and Accounts can be obtained from Federal-Mogul Investor Relations, 26555 Northwestern Highway, Southfield, MI 48033-2146, USA.