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**Joint Supervisors'
Annual Report to Creditors**

**Federal-Mogul Bridgwater
Limited - Company Voluntary
Arrangement**

28 November 2008

KROLL



FEDERAL-MOGUL BRIDGWATER LIMITED - COMPANY VOLUNTARY ARRANGEMENT (CVA)

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FEDERAL-MOGUL BRIDGWATER LIMITED - COMPANY VOLUNTARY ARRANGEMENT (CVA)

1 Introduction

- 1.1 You will recall that I was appointed Joint Supervisor of Federal-Mogul Bridgwater Limited (the **Company**)'s CVA, together with my partners, J Gleave and S Mackellar, on 11 October 2006.
- 1.2 This report is my second 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, I have provided an account of my Receipts and Payments for the year ended 10 October 2008, together with a cumulative account for the CVA to the date of its second anniversary.

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 £4,840,000. 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 £253,085.89.

3 Creditors

Preferential Creditors

- 3.1 Preferential creditors' claims have been paid in full as follows:

	Agreed Claims £
HM Revenue & Customs – PAYE / NI	52,962
HM Revenue & Customs – VAT	251,105
	304,067

Unsecured Creditors

Trade Creditors

- 3.2 The process of reviewing and agreeing creditor claims is complete. I have agreed 267 claims totalling £933,063 and an initial dividend of £699,797 was paid to these creditors, representing 75 pence in the pound.
- 3.3 Cheques totalling £19,498 were not banked within the six month deadline and have therefore expired. In accordance with the CVA proposal, these funds have now been returned to the reserve available to unsecured creditors. On this basis, we have paid out a total of £680,300
- 3.4 A second dividend will be made to the agreed unsecured creditors shortly. Based on current information, it is anticipated that this dividend will be approximately 23 pence in the pound, bringing the total estimated dividend to 98 pence in the pound.
- 3.5 Due to the Company's Agency status with T&N Limited (T&N) the creditors of the Company will also be entitled to receive a further final dividend of 25 pence in the pound on the outstanding balance of their claim. Further details regarding the Agency dividend are detailed below.

Inter-Company Creditors

- 3.6 In accordance with the terms of the CVA proposals, the level of Inter-Company claims were capped at £50,000. Further, it was stipulated that of this claim, only £37,761 would rank equally with the other General Unsecured Claims, with the balance being subordinated. I confirm that a claim of £37,761 has been received and agreed. I have paid £28,320.75 representing a dividend of 75 pence in the pound in respect of this claim.
- 3.7 As creditors of the Company will not receive 100 pence in the pound, the non subordinated element of the Inter-Company claim will not be paid.

Agency Companies

- 3.8 The Company acted as an Agent of T&N Limited (T&N). T&N had no trading operations in its own name and conducted its operations through a number of subsidiaries, many of which acted as agents of T&N. The Agency Agreement was not disclosed to external suppliers and other parties dealing with those subsidiaries.
- 3.9 The effect of this Agency status is that where the agreed unsecured trade and expense creditors of the Company are paid dividends of less than 100 pence in the pound, the Supervisors of the Company are entitled to claim against T&N Limited for the balance of any such claims. This will result in a further dividend to the agreed unsecured creditors of the

Company. The additional dividend will be 25 pence in the pound on the balance of their outstanding claim.

- 3.10 Based on current information it is estimated that trade creditors will receive a dividend of approximately 98 pence in the pound from the Company, so a further dividend of 25 pence in the pound on the balance of their claim will be paid by T&N. Creditors do not have to take any further action in relation to this matter and payment will be forwarded to them in due course.

S75 Pension Creditors

- 3.12 You will recall that the Company was a participating employer in the T&N Retirement Benefits Scheme (1989) (**T&N Pension Scheme**), which had a large funding deficit on a winding up basis.
- 3.13 In accordance with the terms of the CVA proposals, the Section 75 claim against the Company was capped at £4,120,000 and a claim of £3,877,000 was received from the Pension Protection Fund (**PPF**).
- 3.14 At the date of my last report, there were two key unresolved issues which had prevented the claim being agreed. Following a decision of the High Court, I am pleased to advise that both issues have now been resolved, and that the claim has been agreed in the sum £3,877,000. A catch up dividend was paid to the PPF in May 2008, to bring their distribution to £2,907,750 representing a dividend of 75 pence in the pound.
- 3.15 Pending the Judgment of the High Court the Joint Supervisors had held paying a dividend on the disputed element of the PPF's claim. As this payment was delayed until several months after the payment to the other unsecured creditors, interest was also paid on the claim. The amount of £45,687 was paid to the PPF, representing the interest accrued from the date other creditors were paid their dividend to the date of payment to the PPF.

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 creditors and has no impact on the level of dividends that are ultimately available for the Company's creditors. The CVA provides that my 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 2008 total £52,484.50. This represents 287.8 hours at an average rate of £182 per hour. To date, £47,856 plus VAT has been drawn on account of these fees. As stated above, these fees have been drawn from the

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ARRANGEMENT (CVA)**

Remuneration Reserve and are therefore not reflected on the Receipts and Payments account attached at Appendix A.

- 4.3 Attached as Appendices B and C are Time Analyses for the period since my last report, together with a cumulative account for the duration of the CVA. The Time Analyses are produced 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.
- 4.4 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.
- 4.5 Attached, as Appendix D is additional information in relation to our policy on staffing, the use of sub-contractors and re-charging of disbursements.

5 Conclusion

- 5.1 Finally, I will continue to deal with unsecured creditors' claims, pay a final dividend to agreed creditors and deal with the agency claim against T&N.
- 5.2 I estimate that this CVA will be brought to a close before its third anniversary.

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

Yours faithfully



Anne O'Keefe
Joint Supervisor

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**FEDERAL-MOGUL BRIDGWATER LIMITED - COMPANY VOLUNTARY
ARRANGEMENT (CVA)**

**Receipts and Payments Account for the Period from 11 October 2007
to 10 October 2008 and a Cumulative Account for the period from 11
October 2006 to 10 October 2008**

Appendix A

Voluntary Arrangement of Federal-Mogul Bridgwater Limited

	From 11/10/2007 To 10/10/2008	From 11/10/2006 To 10/10/2008
FLOATING REALISATIONS		
Surplus from Administration	NIL	4,840,000.00
Bank Interest Gross	90,206.74	253,085.89
	<u>90,206.74</u>	<u>5,093,085.89</u>
FLOATING COSTS		
Interest payable to PPF	45,687.00	45,687.00
Bank Charges	435.11	475.11
	<u>(46,122.11)</u>	<u>(46,162.11)</u>
PREFERENTIAL CREDITORS		
HMRC - VAT	NIL	251,104.71
HMRC - PAYE/NI	NIL	52,961.86
	<u>NIL</u>	<u>(304,066.57)</u>
UNSECURED CREDITORS		
Trade & Expense	(19,022.05)	680,299.71
Inter Company Payables	NIL	28,320.75
S75 Pension dividend	814,170.00	2,907,750.00
	<u>(795,147.95)</u>	<u>(3,616,370.46)</u>
	<u>(751,063.32)</u>	<u>1,126,486.75</u>
REPRESENTED BY		
Dividend Account - Non Interest Bearing		19,815.55
Interest Bearing Account		1,106,671.20
		<u>1,126,486.75</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 £47,856, plus disbursements of £533.34 and VAT

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Time Analysis for the Period from 11 October 2007 to 10 October 2008

Appendix B

	Employee Grade					(£'s)	
	(Hours)					Total Cost	Average
	Partner/ Director	Senior Associate	Associate/ Analyst	Junior Analyst/ Support	Total Hours		Rate p/h
Administration and Planning							
Strategy and Control	1.8	3.2	6.2	0.9	12.1	3,774.5	312
Bank and Creditor Reporting	-	1.9	1.7	0.4	4.0	1,126.5	282
Creditors Committee	-	-	-	-	-	-	-
Statutory Duties	-	0.1	0.2	-	0.3	89.0	297
Job Administration	-	-	1.3	4.0	5.3	878.0	166
Cash Accounting and Time Records	-	-	0.8	4.2	5.0	941.0	188
Travel and Waiting Time	-	-	-	-	-	-	-
Case Closure	-	-	-	-	-	-	-
Internal Documentation and IT	-	0.2	0.5	-	0.7	190.0	271
Investigations							
D Reports	-	-	-	-	-	-	-
Other Investigations	-	-	-	-	-	-	-
Internal Documentation	-	-	-	-	-	-	-
Realisation of Assets - Fixed Charge							
Initial Actions and Valuations	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Litigation	-	-	-	-	-	-	-
Internal and External Documentation	-	-	-	-	-	-	-
Realisation of Assets - Debtors							
Debt Collection	-	-	-	-	-	-	-
Debtors Litigation	-	-	-	-	-	-	-
Crown Debtors	-	-	-	-	-	-	-
Internal and External Documentation	-	-	-	-	-	-	-
Realisation of Assets - Floating Charge							
Initial Actions and Valuations	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Retention of Title	-	-	-	-	-	-	-
Hire Purchase / Leased Assets	-	-	-	-	-	-	-
Litigation	-	-	-	-	-	-	-
Internal and External Communications	-	-	-	-	-	-	-
Trading							
Initial Actions	-	-	-	-	-	-	-
Cash Accounting	-	-	-	-	-	-	-
Ongoing Trading Activities	-	-	-	-	-	-	-
Internal and External Communications	-	-	-	-	-	-	-
Creditors							
Creditor Dealings	-	-	1.8	1.3	3.1	639.5	206
Creditor claims	2.3	0.5	7.8	1.8	12.4	3,637.0	293
Litigation	-	-	-	-	-	-	-
Shareholders / Bankrupts	-	-	-	-	-	-	-
Internal Documentation	-	-	-	-	-	-	-
Employees	-	-	-	-	-	-	-
Employee Communications	-	-	-	-	-	-	-
Totals	4.1	5.9	20.3	12.6	42.9	11,275.5	263

FEDERAL-MOGUL BRIDGWATER LIMITED - COMPANY VOLUNTARY ARRANGEMENT (CVA)

Cumulative Time Analysis for the Period from 11 October 2006 to 10 October 2008

Appendix C

	Employee Grade					(£'s)	
	(Hours)					Total Cost	Average
	Partner/ Director	Senior Associate	Associate/ Analyst	Junior Analyst/ Support	Total Hours		Rate p/h
Administration and Planning							
Strategy and Control	2.4	7.4	26.6	6.8	43.2	11,509.0	266
Bank and Creditor Reporting	-	2.4	2.5	0.7	5.6	1,542.5	275
Creditors Committee	-	-	-	-	-	-	-
Statutory Duties	-	0.1	0.2	0.4	0.7	151.0	216
Job Administration	0.4	0.7	1.6	33.7	36.4	4,053.0	111
Cash Accounting and Time Records	-	0.5	1.1	17.9	19.5	3,489.0	178
Travel and Waiting Time	-	-	-	-	-	-	-
Case Closure	-	-	-	-	-	-	-
Internal Documentation and IT	-	0.9	0.5	11.8	13.2	1,427.5	108
Investigations							
D Reports	-	-	-	-	-	-	-
Other Investigations	-	-	-	-	-	-	-
Internal Documentation	-	-	-	-	-	-	-
Realisation of Assets - Fixed Charge							
Initial Actions and Valuations	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Litigation	-	-	-	-	-	-	-
Internal and External Documentation	-	-	-	-	-	-	-
Realisation of Assets - Debtors							
Debt Collection	-	-	-	-	-	-	-
Debtors Litigation	-	-	-	-	-	-	-
Crown Debtors	-	-	-	-	-	-	-
Internal and External Documentation	-	-	-	-	-	-	-
Realisation of Assets - Floating Charge							
Initial Actions and Valuations	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Retention of Title	-	-	-	-	-	-	-
Hire Purchase / Leased Assets	-	-	-	-	-	-	-
Litigation	-	-	-	-	-	-	-
Internal and External Communications	-	-	-	-	-	-	-
Trading							
Initial Actions	-	-	-	-	-	-	-
Cash Accounting	-	-	-	-	-	-	-
Ongoing Trading Activities	-	-	-	-	-	-	-
Internal and External Communications	-	-	-	-	-	-	-
Creditors							
Creditor Dealings	0.9	-	6.5	46.3	53.7	6,026.0	112
Creditor claims	5.1	17.2	42.4	44.2	108.9	23,252.5	214
Litigation	-	-	-	-	-	-	-
Shareholders / Bankrupts	-	-	-	-	-	-	-
Internal Documentation	-	-	2.2	2.6	4.8	919.0	191
Employees	-	-	-	1.8	1.8	135.0	75
Employee Communications	-	-	-	-	-	-	-
Totals	8.8	29.2	83.6	166.2	287.8	52,484.5	182

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

Appendix D

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.

1.2 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.

Name of Professional Advisor	Basis of Fee Arrangement
Denton Wilde Sapte (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.

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1.3 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

A schedule of Kroll charge-out rates effective from 1 January 2008 is detailed below.

	(Per hour) £
Partner/Director:	
Partner 1*	495
Partner 2*	445
Director	400
Senior Associate:	
Senior Associate 1*	350
Senior Associate 2*	325
Associate/Analyst:	
Associate	270
Analyst*	240
Junior Analyst and Support Staff:	
Junior Analyst*	125
Senior Treasury Associate	195
Treasury Associate	135
Treasury Analyst	80
Support	80
*Key	
Partner 1 – Partners with 3 or more years experience at partner level	
Partner 2 – Partners with less than 3 years experience at partner level	
Senior Associate 1 – Staff who have been Senior Associates for over 2 years	
Senior Associate 2 – Staff who have been Senior Associates for less than 2 years	
Analyst – Staff who have been Analysts for more than 1 year	
Junior Analyst – First year Analyst	