

Federal-Mogul Eurofriction Limited

Company Number 1131161

Director's Report for the Year Ended 31st December 2007

The director presents her report and financial statements for the year ended 31 December 2007

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 shareholders' and creditors' meetings 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 a payable balance to a fellow group company, therefore a write-back of £297 was made in the profit and loss account in 2006.

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

On 8 November 2007, the US Bankruptcy Court confirmed Federal-Mogul Corporation's Fourth Amended Joint Plan of Reorganization ("the Plan") and on 14 November 2007 the Plan was affirmed by the US District Court. On 27 December 2007, following a 30 day period when objections to the Plan could be raised, the Plan became effective in accordance with its terms (the "Effective Date") and Federal-Mogul Corporation, together with 59 of the UK filing companies, including the Company, emerged from Chapter 11.

On the Effective Date, the Chapter 11 Cases of a further 75 Federal-Mogul subsidiaries in the UK were dismissed. Each of those UK subsidiaries has either few or, in most cases, no known third-party creditors, has no history of using asbestos or manufacturing, selling or distributing asbestos containing products. None of the UK subsidiaries whose Chapter 11 Cases were dismissed were a party to the Plan.

Activities

The Company has not traded during the year. It has written off a receivable from its ultimate parent company. It has made a loss on the restatement of an overseas deposit account and has incurred bank charges on that deposit account. The loss for the year was £1,182 (2006 loss of £143). The director does not recommend a dividend (2006 £nil).

Treasury Policies

The Company makes little use of financial instruments other than a small overseas deposit account. Exposure to price, credit, currency, liquidity and cash flow risks is not material to the assessment of assets, liabilities and profit or loss of the Company.



Federal-Mogul Eurofriction Limited

Company Number 1131161

Director's Report for the Year Ended 31st December 2007 (continued)

Directors

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

J H Devonald, resigned 28 November 2007

E J Milner, appointed 27 September 2007

Completeness of information to Auditors

In accordance with Section 234ZA of the Companies Act 1985 the director

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

Date 10 September 2008

FEDERAL-MOGUL EUROFRICTION 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 FEDERAL-MOGUL EUROFRICTION LIMITED

We have audited the Company's financial statements, (the "financial statements") for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 11. These financial statements have been prepared under 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 other transactions 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.

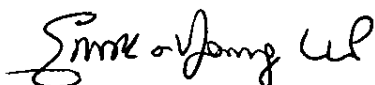
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 FEDERAL-MOGUL EUROFRICTION
LIMITED (CONTINUED)

Opinion

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 2007 and of the Company's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's Report is consistent with the financial statements



Ernst & Young LLP
Registered Auditor
Manchester

12 September 2008

FEDERAL-MOGUL EUROFRICTION LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2007

| | Notes | 2007 £ | 2006 £ |
|---|-------|-----------|-----------|
| Bank fees and charges | | (126) | (130) |
| Foreign exchange loss | | (1) | (13) |
| Operating expense excluding exceptionals | | (127) | (143) |
| Exceptional operating income – net write-back of inter-company balances arising from the CVA | 2 | - | 297 |
| Exceptional operating charges – net write-off of inter-company balances arising from the Plan | 2 | (1,055) | - |
| Other operating (charges) / income | | (1,182) | 154 |
| Operating (loss) / profit | 2 | (1,182) | 154 |
| Net interest payable to Group Companies | 4 | - | (297) |
| Loss on ordinary activities before taxation | | (1,182) | (143) |
| Tax on loss on ordinary activities | 5 | - | - |
| Loss on ordinary activities after taxation | | (1,182) | (143) |
| Loss attributable to shareholders | 10 | (1,182) | (143) |

A reconciliation of movements in shareholders' funds is given in note 10 of the financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses other than the loss for the period

All results have been derived from continuing operations

FEDERAL-MOGUL EUROFRICTION LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2007

| | Notes | 2007 £ | 2006 £ |
|--|-------|----------------|----------------|
| <u>Current Assets</u> | | | |
| <u>Debtors</u> amounts falling due within one year | 6 | - | 1,055 |
| Cash at bank | | 17 | 44 |
| | | <u>17</u> | <u>1,099</u> |
| <u>Creditors</u> amounts falling due within one year | 7 | (380) | (280) |
| | | <u>(363)</u> | <u>819</u> |
| Net current (liabilities) / assets | | | |
| <u>Creditors</u> due after more than one year | 8 | (5,125) | (5,125) |
| | | <u>(5,488)</u> | <u>(4,306)</u> |
| Net Liabilities | | | |
| <u>Capital and Reserves</u> | | | |
| Called up Share Capital | 9 | 10,000 | 10,000 |
| Profit and loss account | 10 | (15,488) | (14,306) |
| | | <u>(5,488)</u> | <u>(4,306)</u> |
| Shareholders' funds – deficit | 10 | (5,488) | (4,306) |

The financial statements on pages 6 to 10 were approved by the Board on 10 September 2008 and were signed on its behalf by -



Director

FEDERAL-MOGUL EUROFRICTION 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

(b) Cash Flow Statement

Under Financial Reporting Standard 1 (Revised 1996), 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

(c) 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. Exchange differences on transactions in foreign currencies are included in the profit and loss account.

(d) 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.

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.

(e) Fundamental Accounting Concept

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

(f) Related parties

The Company has taken advantage of the exemption in FRS 8 Related Party Disclosures from disclosing transactions with related parties that are part of the Federal-Mogul group.

FEDERAL-MOGUL EUROFRICTION LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

2 OPERATING (LOSS) / PROFIT

(a) Exceptional operating charges/(income)

A write-off of £1,055 has been made against an amount receivable from Federal-Mogul Corporation. This is in accordance with the terms of the Plan.

In 2006, a write-back of £297 was made against an amount payable to T&N Limited in line with the terms of the Company's own CVA under which the balance due will be settled at a nominal value of £1, hence the write-back.

The impact of the Plan / CVAs on the balance sheet can be summarised as follows:

| | 2007 £ | 2006 £ |
|--|----------------|------------|
| Debtors amount falling due within one year | (1,055) | - |
| Creditors amount falling due within one year | - | 297 |
| | <u>(1,055)</u> | <u>297</u> |

(b) The audit fees of £1,000 (2006: £1,000) were borne by a fellow group company during the year.

3 DIRECTORS AND EMPLOYEES

The directors have not received any remuneration for services to the Company during the year (2006: £nil).

There are no employees of the Company (2006: Nil).

4 NET INTEREST PAYABLE TO GROUP COMPANIES

| | 2007 £ | 2006 £ |
|--|-----------|--------------|
| Adjustment to interest receivable from group company | - | (297) |
| Net interest payable to group companies | <u>-</u> | <u>(297)</u> |

5 TAXATION

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

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

| | 2007 £ | 2006 £ |
|---|-----------|-----------|
| Loss on ordinary activities before tax | (1,182) | (143) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%) | (355) | (43) |
| Expenses not deductible for tax purposes | 38 | 132 |
| Plan/CVA adjustments not taxable | 317 | (89) |
| Tax charge/ (credit) for the year | <u>-</u> | <u>-</u> |

FEDERAL-MOGUL EUROFRICTION LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

5 TAXATION (CONTINUED)

The Finance Act 2007 includes changes which will affect future tax charges. The main change which will affect the Company is a reduction in the rate of Corporation tax from 30% to 28% from 1 April 2008.

| | | | |
|----|--|-----------|-----------|
| 6 | <u>DEBTORS</u> amounts falling due within one year | 2007 £ | 2006 £ |
| | Amounts owed by ultimate parent company | - | 1,055 |
| 7 | <u>CREDITORS</u> amounts falling due within one year | 2007 £ | 2006 £ |
| | Amounts owed to parent undertaking | 369 | 269 |
| | Other creditors | 11 | 11 |
| | | 380 | 280 |
| 8 | <u>CREDITORS</u> amounts due after more than one year | 2007 £ | 2006 £ |
| | Loan from parent undertaking | 5,125 | 5,125 |
| 9 | <u>CALLED UP SHARE CAPITAL</u> | 2007 £ | 2006 £ |
| | Authorised, issued and fully paid 10,000 ordinary shares of £1 each | 10,000 | 10,000 |
| 10 | <u>RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS</u> | | |

| | Share Capital £ | Profit and loss Account £ | Total £ |
|------------------------|-----------------------|---------------------------------|------------|
| At 1 January 2006 | 10,000 | (14,163) | (4,163) |
| Loss for the year 2006 | - | (143) | (143) |
| At 31 December 2006 | 10,000 | (14,306) | (4,306) |
| Loss for the year 2007 | - | (1,182) | (1,182) |
| At 31 December 2007 | 10,000 | (15,488) | (5,488) |

11 ULTIMATE PARENT COMPANY

The Company's parent company is T&N 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.