F-M UK Holding Limited

Report and Financial Statements

1999

Registered No: 3459039
Registered address

Manchester International Office Centre
Styal Road
Manchester
M22 5TN

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 1999.

Principal Activity and review of the business
The Group manufactures and supplies high technology engineered automotive components and industrial materials. The Group's major product lines consist of piston products, heavy bearings, friction products, composites and camshafts (incorporating sintered products) and sealing products servicing major original equipment manufacturers and aftermarket. The Group operates mainly in North America.

Review of business and future developments
The Group achieved an operating profit from continuing operations of £63.6m (1998 ten months: £33.1m), on turnover of £521.8m (1998 ten months: £385.0m).

During the year the Group has continued to incur rationalisation, restructuring, and integration costs. The components of the integration plan include: closure of certain manufacturing facilities; relocation of highly manual manufacturing product lines to lower cost regions or more suitable locations; consolidation of overlapping manufacturing, technical sales facilities and joint ventures; consolidation of overlapping aftermarket warehouses; consolidation of aftermarket marketing and customer support functions; and streamlining of administrative, sales, marketing and product engineering staffs world-wide. This restructuring and integration activity is expected to be completed during the 2000 financial year.

Results and dividends
In the year ended 31 December 1999 the Group recorded a profit after taxation of £58.0m (1998 ten months: £24.6m)

The directors do not recommend the payment of a dividend to the holders of ordinary shares and no interim dividend was paid.

Share Issue
On 13 April 1999 the company issued 4,632,001 ordinary shares of £1 each at par, in exchange for the entire share capital of the Federal-Mogul Acquisition Company Limited.

Directors and their interests
The directors who served during the year were as follows:

Mr. P Beaton	Resigned 18 May 2000
Mr. A C Johnson	Resigned 1 September 1999
Mr. T W Ryan	Resigned 6 March 2000
Mr. R A Snell	Resigned 9 April 1999
Mr. K Thomas	Resigned 18 August 2000
Mr. M Verwilst	Appointed 1 September 1999 and resigned 18 August 2000

Mr. D Bozynski was appointed on 6 March 2000, Mr J Devonald was appointed on 18 August 2000 and Mr. A C Boydell was appointed on 7 November 2000.

No director has interests in the shares of the Company or any of its subsidiaries.

Directors' Report

Employees

The Group has over 6,600 employees mainly in the USA. Further information is given in Note 9.

It is the Group's policy to provide equal opportunities to all employees. The Group provides appropriate training at all levels and is committed to help employees to develop their full potential by gaining relevant skills and experience.

Full and fair consideration is given to applications for employment made by the disabled. Employees who become disabled will be retained in employment wherever possible and, where necessary, appropriate retraining will be provided.

The Group places considerable emphasis on regular and effective communications with employees on matters of concern to them. The Group involves and consults employees on matters concerning its performance.

Research and development

The research and development activities of the group are directed principally towards the development of new products and to improving the performance and effectiveness of existing products. In the year ended 31 December 1999 expenditure amounted to £4.4m (1998 ten months: £8.1m).

Policy and practice on the payment of creditors

Operating businesses are responsible for agreeing trading and payment terms with their suppliers. These terms vary with the industry and the country involved. It is Group policy that terms are adhered to.

T&N asbestos litigation

Two of the Company's US subsidiaries, along with T&N Limited, their former parent, ("The T&N companies") are amongst many defendants named in a large number of court actions brought in the United States. These court actions allege personal injury resulting from exposure to asbestos or asbestos-containing products. Because of the slow onset of asbestos-related diseases, management anticipates that similar claims will continue to be made in the future. It is not known with certainty how many such claims will be made, nor the expenditure which may arise therefrom. As of 31 December 1999, the Group has provided for approximately £160.3m (1998: £187.8m) as its best estimate for future costs related to resolving asbestos claims and £17.7m (1998: £6.5m) in accruals for settled claims and costs. Management estimates that claims will be filed and paid over an extended future period which may, in some cases, be in excess of 20 years. Accordingly, management, after projecting its best view of the profile of the cash flows, has discounted the provision. This projection is based on, inter alia, recent and historical claims experience, medical information, statistical analysis and an assessment of the current legal environment. Further information is included in Note 29 of the financial statements.

Directors' Report

Statement of directors' responsibilities

The directors are required to prepare, for each financial period, financial statements which give a true and fair view of the state of affairs of the Group as at the end of the accounting period and of the profit or loss for that period.

In preparing the 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 Accounting Standards have been followed, subject to any material departure being disclosed and explained in the notes to the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are also responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors
The auditors, Ernst & Young, have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

By Order of the Board

Director
Date: 28-11-2002

Auditors' Report on the financial statements to the members of F-M UK Holding Limited

We have audited the financial statements on pages 5 to 22, which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards 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 Group'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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Registered Auditor
Manchester
Date:

28 NOV 2000

Consolidated Profit and Loss Account

For the year ended 31 December 1999

	Notes	12 months ended 31 December 1999 £m	10 months ended 31 December 1998 £m
Turnover			
Continuing operations		515.3	385.0
Continuing operations – acquisitions		6.5	-
		521.8	385.0
Cost of sales		(409.8)	(294.9)
Gross profit		112.0	90.1
Net operating expenses	3	(48.4)	(57.0)
Operating profit on ordinary activities			
Continuing operations		64.6	33.1
Continuing operations – acquisitions		(1.0)	-
		63.6	33.1
Share of operating profit of associates		3.3	0.8
Profit on ordinary activities before interest		66.9	33.9
Net interest receivable	4	1.3	2.8
Profit on ordinary activities before taxation	5	68.2	36.7
Tax on profit on ordinary activities	6	(10.2)	(12.1)
Profit on ordinary activities after taxation		58.0	24.6
Minority interests		(4.7)	(2.3)
Retained profit for the period	20	53.3	22.3

Statement of Group Total Recognised Gains and Losses

For the year ended 31 December 1999

	Notes	31 December 1999 £m	31 December 1998 £m
Retained profit for the period		53.3	22.3
Foreign exchange (loss)/gain differences taken to reserves	20	(0.8)	0.7
Total recognised gains for the period		52.5	23.0

Balance Sheets

At 31 December 1999

	Note	Group 31 December 1999 £m	Group 31 December 1998 £m	Company 31 December 1999 £m	Company 31 December 1998 £m
FIXED ASSETS					
Intangible assets – goodwill	10	414.4	425.6	-	-
Tangible assets	11	230.6	191.0	-	-
Investments	12	51.6	48.0	452.6	448.0
		696.6	664.6	452.6	448.0
CURRENT ASSETS					
Stocks	13	37.4	46.9	-	-
Debtors falling due within one year	14	263.8	186.1	-	-
Cash at bank and in hand		0.3	2.0	-	-
		301.5	235.0	-	-
CREDITORS – amounts falling due within one year	15	(265.9)	(196.1)	(21.4)	(16.8)
NET CURRENT ASSETS/(LIABILITIES)		35.6	38.9	(21.4)	(16.8)
TOTAL ASSETS LESS CURRENT LIABILITIES		732.2	703.5	431.2	431.2
CREDITORS – amounts falling due after more than one year	16	(162.4)	(170.0)	(155.6)	(168.6)
PROVISION FOR LIABILITIES AND CHARGES	18	(211.9)	(238.6)	-	-
NET ASSETS		357.9	294.9	275.6	262.6
CAPITAL AND RESERVES					
Called up share capital	19	268.0	263.3	268.0	263.3
Profit and loss account	20	75.5	23.0	7.6	(0.7)
TOTAL EQUITY SHAREHOLDERS' FUNDS		343.5	286.3	275.6	262.6
Equity minority interests	22	14.4	8.6	-	-
		357.9	294.9	275.6	262.6

The financial statements on pages 5 to 22 were approved by the Board of Directors on 28-11-2000
and were signed on its behalf by

Director

Notes To The Financial Statements For The Year Ended 31 December 1999

1 Accounting Policies

a) Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards and Practice. The directors consider that the accounting policies are suitable and are supported by reasonable and prudent judgements and estimates

b) Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiaries. The assets of subsidiary undertakings acquired are incorporated at their fair value at the date of acquisition. The premium arising on the acquisition of subsidiary undertakings is capitalised as goodwill.

The Group result after taxation includes only that proportion of the results of subsidiary undertakings arising since the effective date of control, or in the case of undertakings disposed of, for the period of ownership.

c) Turnover

Turnover is the amount derived from the provision of goods and services falling within the Group companies' ordinary activities excluding trade discounts and sales taxes.

d) Leasing

Finance leases of significant items of plant and machinery are capitalised and depreciated in accordance with the Group's depreciation policy. The capital element of future lease payments is included under borrowings. Interest, calculated on the reducing balance method, is included within net interest payable. Operating lease rentals are charged to the profit and loss on a straight-line basis over the life of the lease.

e) Pensions and other post-employment benefits

The cost of providing pensions and other post retirement benefits are charged to the profit and loss account so as to spread the cost of pensions over the service lives of the participating employees. The costs are assessed in accordance with actuarial advice. Differences between the amounts charged in the profit and loss account and payments made to the plans are treated as assets or liabilities in the balance sheet. The unfunded post-employment medical benefit liability is included in provisions in the balance sheet.

f) Foreign currencies

Overseas companies' results are translated into sterling at average rates and their balance sheets at period end exchange rates. An adjustment to local currency results is made to reflect current price levels, where appropriate, before translation into sterling. Assets and liabilities denominated in foreign currencies are also translated into local currency at the period end exchange rates. Exchange gains and losses arising from the retranslation of the opening investment in subsidiaries and any related foreign currency loans are taken direct to reserves. Other exchange differences are taken to the profit and loss account.

g) Grants

Grants relating to expenditure on tangible fixed assets are credited to profit over a period approximating to the lives of the qualifying assets. Grants received to date, less the amounts so far credited to profit, are included in creditors.

h) Stocks

Stocks are stated at the lower of original cost and net realisable value on a first-in-first-out basis. Cost comprises materials, labour and an allocation of attributable overhead expenses. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for costs of realisation.

i) Research and development
Research and development expenditure, including all expenditure on internally developed patents and trademarks, is written off when incurred.

j) Taxation
Deferred taxation is attributable to timing differences between results as computed for tax purposes and as stated in the financial statements. These differences arise from, for example, different rates at which allowances are granted for capital expenditure for tax purposes and at which depreciation is charged in the financial statements. Provision for deferred tax, including that relating to post retirement benefits, is made only to the extent that it is probable that an actual liability or asset will crystallise.

k) Tangible fixed assets and depreciation
Tangible fixed assets are depreciated over their estimated useful economic lives at the following annual rates applied to historical cost.

- Freehold buildings — 2.5% per annum
- Leasehold buildings are assumed to have a life equal to the period of the lease, but with a maximum of 40 years
- Plant and machinery, at rates ranging from — 7%-33% per annum

Freehold land is not depreciated. Provisions are made for any impairment in asset values.

l) Goodwill
Goodwill, representing the premium of the purchase price over the fair value of the separable net assets acquired is capitalised as an intangible asset.

Goodwill is amortised to the profit and loss account on a straight-line basis over its useful life. For the acquisitions made to date this has been estimated to be 20 years.

m) Investments
Fixed asset investments are stated at cost less provision for any impairment in value. Current asset investments are stated at the lower of cost and net realisable value.

2 Cash flow statement, related party disclosures and segmental information

The Company's ultimate parent entity is Federal-Mogul Corporation, a company listed on the New York Stock Exchange. As the Group is included in the consolidated financial statements of Federal-Mogul Corporation, the Group has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The Group is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of Federal-Mogul Corporation or investees of the Federal-Mogul Corporation Group.

In addition the Group has taken advantage of the exemptions from disclosure of segmental and geographical information under the terms of Statement of Standard Accounting Practice No 25, as this information is disclosed in the consolidated financial statements of the ultimate parent.

Notes To The Financial Statements For The Year Ended 31 December 1999

3. Operating costs	12 months ended 31 December 1999 £m			10 months ended 31 December 1998 £m		
	Acquisitions	Continuing	Total	Acquisitions	Continuing	Total
Cost of sales	7.3	402.5	409.8	-	294.9	294.9
Net operating expenses						
Selling and distribution costs	0.1	11.4	11.5	-	13.0	13.0
Administration expenses	-	52.4	52.4	-	35.9	35.9
Research and development	0.1	4.3	4.4	-	8.1	8.1
Profit on sale of assets	-	(5.7)	(5.7)	-	-	-
Exchange gain on loan	-	(14.2)	(14.2)	-	-	-
Net operating costs	0.2	48.2	48.4	-	57.0	57.0

Exceptional operating costs charged in arriving at the operating profit of continuing operations include £6.2m (1998 ten months: £7.9m) in respect of reorganisation, restructuring and redundancy costs. £2.4m (1998 ten months: £2.3m) of these costs have been charged as administrative costs, and £3.8m (1998 ten months: £5.6m) as costs of sales. Goodwill amortisation of £21.7m (1998 ten months: £18.2m) has been charged as administrative costs.

4. Interest	12 months ended 31 December 1999 £m	10 months ended 31 December 1998 £m
Interest payable on bank loans, overdrafts and other group loans	(15.1)	(23.3)
Amortisation of discounted asbestos provision	(3.9)	(3.5)
Total interest and similar charges payable	(19.0)	(26.8)
Interest receivable	20.3	29.6
Net interest receivable	1.3	2.8

Interest payable to other companies within the Federal-Mogul Corporation Group amounted to £14.3m (1998 ten months: £22.7m). Interest receivable from other companies within the Federal-Mogul Corporation Group amounted to £20.0m (1998 ten months: £26.2m). Included within interest receivable in 1998 was an amount of £3.3m in respect of the unwinding of the discount on the sale proceeds of assets held for resale as at the date of acquisition. This is detailed in note 8.

5. Profit on ordinary activities before taxation	12 months ended 31 December 1999 £m	10 months ended 31 December 1998 £m
Profit before taxation is stated after charging/(crediting)		
Amortisation of goodwill	21.7	18.2
Depreciation of tangible fixed assets - owned assets	29.3	20.3
Operating lease rentals – land and buildings	0.9	0.4
Operating lease rentals – plant and machinery	0.7	1.1
Group audit fees and expenses of which the parent company was £20,000	0.1	0.3
Research and development	4.4	8.1
Loss on disposal of business	0.3	-
Profit on sale of business	(6.0)	-
Gain on disposal of fixed assets	(0.4)	-

There were no significant non audit fees charged in the UK

Notes To The Financial Statements For The Year Ended 31 December 1999

6. Tax on profit on ordinary activities	12 months ended 31 December 1999 £m	10 months ended 31 December 1998 £m
United Kingdom – Corporation tax at 30.25% (1998: 31%)	-	-
Overseas - Corporate taxes	0.4	11.0
Deferred tax	9.8	1.1
	10.2	12.1

The UK tax charge has been reduced by £6,733k (1998: £4,960k) due to group relief received for which no payment will be made. A deferred tax asset on interest accruals has not been recognised.

The US Group, which includes the T&N Industries Inc sub-group, files a consolidated tax return and the 1999 return showed a net tax loss position with a liability to the alternative minimum federal tax only. The US consolidated tax group has not entered into a tax sharing arrangement for the period and therefore no payment will be made for any relief received by the T&N Industries group from other US companies within this group. Similarly the share of T&N Industries group in any federal or state taxes payable will not be charged to it but will be borne by Federal-Mogul Corporation.

7. Profit of holding company

Of the consolidated profit attributable to shareholders, a profit of £8.3m (1998 ten months: loss of £0.7m) is included in the financial statements of the holding company, F-M UK Holding Limited. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

8. Disposals of assets held for resale – Held Separate businesses	12 months ended 31 December 1999 £m	10 months ended 31 December 1998 £m
Proceeds to be received from group companies following the sale on 18 December 1998	-	83.7
Net assets disposed of	-	(80.4)
Interest income	-	3.3

The Held Separate businesses were acquired as part of the T&N plc acquisition, and were treated as assets held for resale. The value of the net assets disposed of represents the fair value of the net assets acquired from T&N on 6 March 1998. The sale proceeds have been discounted to their present value at the date of acquisition, and included within interest receivable during 1998.

9. Employees and directors

Staff costs	12 months ended 31 December 1999 £m	10 months ended 31 December 1998 £m
Wages and salaries	125.1	118.9
Social security costs	10.5	7.3
Pension costs and other post-employment benefits	4.9	2.8
Redundancy payments	1.1	2.0
	141.6	131.0

9. Employees and directors (continued)

Employee numbers	31 December 1999 Number	31 December 1998 Number
Average for the year	6255	5908
Closing	6643	6091

Directors

None of the directors received emoluments in their capacity as directors of F-M UK Holding Limited. It has not been possible to apportion their emoluments as directors of Federal-Mogul Corporation between subsidiary companies.

10. Intangible assets - goodwill

Group	Goodwill £m	Negative goodwill £m	Total £m
Cost			
At 31 December 1998	444.7	(0.9)	443.8
Acquisition of subsidiary undertakings	2.6	-	2.6
Fair value adjustments	7.9	-	7.9
At 31 December 1999	455.2	(0.9)	454.3
Amortisation			
At 31 December 1998	(18.2)	-	(18.2)
(Charge)/release for the period	(22.6)	0.9	(21.7)
At 31 December 1999	(40.8)	0.9	(39.9)
Net book amount at 31 December 1999	414.4	-	414.4
Net book amount at 31 December 1998	426.5	(0.9)	425.6

Goodwill has arisen on the acquisition of F-M Acquisition Company Limited, further details of which are included in Note 23. Goodwill is amortised over its estimated useful life of 20 years. Negative Goodwill has been released as FP Diesel Limited has sold the assets to which it related.

Notes To The Financial Statements For The Year Ended 31 December 1999

11. Tangible fixed assets

Group Cost	**Land and buildings** **£m**	**Plant and machinery** **£m**	**Total** **£m**
At 31 December 1998	44.5	166.5	211.0
Arising on acquisition	3.4	2.9	6.3
Additions	2.6	60.0	62.6
Disposals	(6.4)	(4.5)	(10.9)
Reclassifications	(1.6)	1.6	-
Currency movements	1.7	7.7	9.4
At 31 December 1999	44.2	234.2	278.4

Depreciation	**Land and buildings** **£m**	**Plant and machinery** **£m**	**Total** **£m**
At 31 December 1998	1.5	18.5	20.0
Charge for the year	2.6	26.7	29.3
Disposals	(0.2)	(1.9)	(2.1)
Currency movements	-	0.6	0.6
At 31 December 1999	3.9	43.9	47.8
Net book value			
At 31 December 1999	40.3	190.3	230.6
At 31 December 1998	43.0	148.0	191.0

Included in the cost of fixed assets are buildings in the course of construction of £nil (1998: £nil) and plant and machinery in the course of construction of £45.1m (1998: £5.8m). Assets in the course of construction are not depreciated.

Net book value of land and buildings	**1999** **£m**	**1998** **£m**
Freehold land - not depreciated	3.8	3.3
Freehold buildings	36.4	39.6
Short leasehold	0.1	0.1
	40.3	43.0

Notes To The Financial Statements For The Year Ended 31 December 1999

12. Investments

Group	Subsidiary undertakings £m	Associated undertakings £m	Other investments £m	Total £m
Cost				
At 31 December 1998	-	2.6	45.4	48.0
Acquisitions	-	2.6	2.3	4.9
Currency translation	-	0.2	-	0.2
Share of profits	-	3.3	-	3.3
Disposals and repayments	-	(4.8)	-	(4.8)
At 31 December 1999	-	3.9	47.7	51.6
Company				
Cost				
At 31 December 1998	403.2	-	44.8	448.0
Acquisitions	4.6	-	-	4.6
At 31 December 1999	407.8		44.8	452.6

Other investments include the trade investment in Federal-Mogul Global Growth Limited. Federal-Mogul Growth B.V has the controlling interest in Federal-Mogul Global Growth Limited.

13. Stocks	Group 31 December 1999 £m	Group 31 December 1998 £m
Raw materials	10.0	9.2
Work in progress	8.8	9.8
Finished products	18.6	27.9
	37.4	46.9

14. Debtors	Group 31 December 1999 £m	Group 31 December 1998 £m
Amounts falling due within one year:		
Trade debtors	15.8	55.1
Amounts owed by fellow subsidiary undertakings	231.8	103.3
Deferred tax recoverable	-	9.5
Other debtors	12.6	15.8
Prepayments and accrued income	3.6	2.4
	263.8	186.1

During the year most trade debtors were transferred without recourse to Federal-Mogul Corporation's shared services function.

15. Creditors – amounts falling due within one year	**Group 31 December 1999 £m**	**Group 31 December 1998 £m**	**Company 31 December 1999 £m**	**Company 31 December 1998 £m**
Bank loans and other borrowings (note 17)	6.2	20.9	-	-
Trade creditors	57.7	37.4	-	-
Amounts owed to fellow subsidiary undertakings	140.2	95.1	21.4	16.8
Overseas corporate tax	14.0	11.4	-	-
Other tax and social security payable	1.8	6.4	-	-
Accruals and deferred income	28.3	18.4	-	-
Settled asbestos claims (note 29)	17.7	6.5	-	-
	265.9	196.1	21.4	16.8

16. Creditors – amounts falling due after more than one year	**Group 31 December 1999 £m**	**Group 31 December 1998 £m**	**Company 31 December 1999 £m**	**Company 31 December 1998 £m**
Bank loans and other borrowings (note 17)	6.3	1.1	-	-
Amounts owed to fellow subsidiary undertakings	155.6	168.3	155.6	168.6
Other creditors	0.5	0.6	-	-
	162.4	170.0	155.6	168.6

17. Bank loans and other borrowings	Group 31 December 1999	Group 31 December 1998
Borrowings	£m	£m
Repayable after more than five years	2.8	0.9
Repayable in two to five years	0.6	0.1
Repayable in one to two years	2.9	0.1
Total due after more than one year	6.3	1.1
Total due within one year	6.2	20.9
Total borrowings -unsecured bank loans and overdrafts	12.5	22.0

Loans due after more than five years incur interest at the adjustable bond rate plus 0.5%.

The Company has loans with fellow subsidiary undertakings in the Federal-Mogul Corporation Group of £155.6m (1998: £168.6m) repayable after more than five years, and £21.4m (1998: £16.8m) repayable within one year. The loans incur interest at the rate of 3.6% and 8.03%.

18. Provisions for liabilities	Post employment benefits Non-pension £m	Post employment benefits Pension £m	Asbestos related £m	Other provisions £m	Total £m
Group					
At 31 December 1998	35.0	10.7	187.8	5.1	238.6
On acquisition	-	0.2	-	-	0.2
Reclassified to creditors	-	-	(11.2)	-	(11.2)
Foreign exchange movements	1.4	1.0	10.3	0.2	12.9
Increase in year	1.8	0.6	-	0.1	2.5
Amortisation of discount	-	-	3.9	-	3.9
Payments	(3.4)	(0.4)	(30.5)	(0.7)	(35.0)
At 31 December 1999	34.8	12.1	160.3	4.7	211.9

Other provisions represent costs of environmental cleaning. Details of the asbestos related provision are disclosed in Note 29. Details of pension and other post-employment benefits are disclosed in Note 25.

Notes To The Financial Statements For The Year Ended 31 December 1999

19. Called up share capital	Group and Company Dec 1999 £m	Dec 1998 £m
Ordinary shares of £1 each		
Authorised – 400,000,000	400.0	400.0
Allotted and fully paid – 268,002,101 (December 1998: 263,370,100)	268.0	263.3

On 13 April 1999 the Company issued 4,632,001 shares for a consideration for £4,632,001. This was used to fund the acquisition of Federal-Mogul Acquisition Company Ltd.

20 Profit and loss account	Group £m	Company £m
1 January 1999	23.0	(0.7)
Retained profit for the year	53.3	8.3
Net exchange adjustments	(0.8)	-
At 31 December 1999	75.5	7.6

21. Reconciliation of movements in shareholders' funds	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Total shareholders' funds				
At 1 January	286.3	-	262.6	-
Share capital issued	4.7	263.3	4.7	263.3
Profit attributable to shareholders	53.3	22.3	8.3	(0.7)
Other recognised gains and losses	(0.8)	0.7	-	-
At 31 December	343.5	286.3	275.6	262.6

22. Minority Interests	1999 £m	1998 £m
At 1 January	8.6	-
Minority interest share of profits for the year	4.7	2.3
Dividend paid to minority	(0.7)	-
Share capital issued to minority	1.8	6.3
At 31 December	14.4	8.6

Notes To The Financial Statements For The Year Ended 31 December 1999

23. Acquisitions

a) Acquisition of Federal-Mogul Acquisition Company

With effect from 13 April 1999 the Company acquired the entire share capital of Federal-Mogul Acquisition Company Limited.

The Company issued £4.6m shares to acquire the net assets, which had a book value of £2m. Goodwill of £2.6m arose.

b) Acquisition of T&N Industries Inc

With effect from 6 March 1998 the Company acquired the entire share capital of T&N Industries Inc.

The total adjustments required to the book value of the assets and liabilities of the businesses acquired in order to present the net assets of the businesses at fair value were £66.4m (1998: £58.5m), details of which are set out below.

	Book value £m	Fair value adjustments 1998 £m	Fair value adjustments 1999 £m	Final fair value £m
Tangible fixed assets	187.6	(1.3)	-	186.3
Investments	7.0	(1.4)	-	5.6
Asset held for resale	-	80.4	(2.3)	78.1
Stock	48.6	(2.9)	(8.7)	37.0
Debtors	100.6	(0.2)	3.1	103.5
Creditors	(159.7)	(10.2)	-	(169.9)
Provisions	(137.3)	(122.9)	-	(260.2)
Minority interests	(5.1)	-	-	(5.1)
Net overdraft	(25.0)	-	-	(25.0)
Net assets/(liabilities) acquired	16.7	(58.5)	(7.9)	(49.7)
Goodwill				452.6
Consideration				402.9
Consideration satisfied by				
Cash				402.9

The book value of the assets and liabilities acquired has been extracted from the accounts at the date of acquisition on 6 March 1998 and represent the assets and liabilities of the companies retained by the Group, i.e. excluding the assets and liabilities of the held separate businesses.

Revaluation of investments, stock and debtors reflect the write down to estimated realisable value.

24. Disposals

a) In the year the Group disposed of the business of Federal-Mogul Composites Inc to a third party. Net assets of £0.7m were sold for consideration of £0.4m, giving rise to a loss of £0.3m.

b) On 1 January 1999 T&N Industries Inc sold T&N Technical Center Inc to fellow subsidiary undertakings in the Federal-Mogul Corporation Group for proceeds of £6.8m compared to the net assets of £0.8m.

25. Post-employment benefits

The Company operates a number of defined benefit and defined contributions schemes through a number of its subsidiaries. The assets of the principal schemes are held in separate trustee-administered funds, and undergo an actuarial analysis on a regular basis. The pension cost of the Company and its subsidiaries amounted to £2.0m (1998: £0.8m). In addition, other post-employment benefits (substantially medical insurance) in the US are fully provided for in accordance with UK accounting standards. Provisions amounted to £34.8m (1998: £35.0m) at the end of 1999 in respect of these benefits. The cost of post-employment benefits in the US was £2.9m (1998: 2.0m).

The most recent formal valuation of the US pension plans was performed in 1997, and a valuation exercise was performed at the date of acquisition of T&N Industries Inc. As at the date of acquisition there was a projected deficiency of £7.1m on scheme assets of £77.1m, representing a deficit of 9.2% which has been reflected in the fair value table. The assumptions used for the valuation as at the date of acquisition, which does not represent a formal valuation, were projected long-term rate of return on the plan's assets of 10.0%, and a discount rate of 7.0% applied to future cash flows. These valuations cover 7 out of the 13 plans in operation, and represent 83% of the total value of the assets in the US pension plans. Information in respect of the six plans not included above is not considered material for disclosure purposes. The pension cost for the year was £2.0m (1998: £0.8m), and represents the expense required to fund the future benefits attributed to the current year of service of the employees.

26. Operating lease commitments	Land and Buildings 1999 £m	Plant and Equipment 1999 £m	Total 1999 £m	Land and Buildings 1998 £m	Plant and Equipment 1998 £m	Total 1998 £m
Annual commitments under non-cancellable operating leases expiring:						
Within one year	0.4	0.2	0.6	-	0.1	0.1
Within two to five years	0.2	0.4	0.6	0.4	1.1	1.5
After five years	0.2	-	0.2	0.3	0.1	0.4
	0.8	0.6	1.4	0.7	1.3	2.0

Notes To The Financial Statements For The Year Ended 31 December 1999

27. Capital and other financial commitments	31 December 1999 £m	31 December 1998 £m
Contracts placed for future capital expenditure not provided in the financial statements:	8.2	1.5

28. Deferred taxation Group	1999 £m	1998 £m
Asset recognised		
At 1 January	9.5	-
Asbestos-related costs	-	9.5
Currency translation	0.3	-
Transfer to Profit & Loss account	(9.8)	-
At 31 December	-	9.5

Deferred tax is only recognised to the extent an asset or liability will crystallise in the foreseeable future. For further details on the effect on the Profit & Loss account see note 6.

	1999 £m	1998 £m
Unprovided assets/(liabilities)		
At 1 January	-	-
Excess of book value over tax value of fixed assets	(12.6)	(10.8)
Losses and other timing differences	12.6	10.8
At 31 December	-	-

Provision for deferred taxation is only made to the extent that it is probable that an actual liability or asset will crystallise.

29. Contingent liabilities

a) Asbestos-related litigation

Two of the Company's US subsidiaries along with T&N Ltd, a fellow subsidiary (collectively known as 'the T&N companies'), are among many defendants named in numerous court actions, in the United States, alleging personal injury resulting from exposure to asbestos or asbestos-containing products.

Because of the slow onset of asbestos-related diseases, management anticipates that similar personal injury claims will continue to be made in the future but it is not known, with any certainty, how many such claims may be made nor the expenditure that may arise therefrom. There are also a number of additional factors that could impact settlement costs in the future including, but not limited to, changes in the legal environment, possible insolvency of co-defendants and the establishment of an acceptable administrative claims resolution mechanism.

As of 31 December 1999, the Group has provided some £178.0m (1998: £194.3m) as its best estimate for future costs related to resolving asbestos claims. This comprises £160.3m (1998: £187.8m) for future claims and £17.7m (1998: £6.5m) in respect of payments due on claims already settled.

In arriving at the provision, a number of assumptions have been made regarding the total number of claims which it is anticipated may be received in the future, the typical cost of settlement (which is sensitive to the industry in which the plaintiff claims exposure, the alleged disease type and the jurisdiction in which the claim is brought), the rate of receipt of claims and the timing of settlement. It is management's view that claims will continue to be filed for an extended period in the future, in some cases in excess of 20 years. Accordingly, a profile of claims has been projected based upon recent claims experience, medical information, statistical analysis and an assessment of the current legal environment. This profile of cash flows has been discounted at a rate of 2% (1998: 2%).

Notes To The Financial Statements For The Year Ended 31 December 1999

As at 31 December 1999, the US subsidiaries had approximately 78,000 (1998: 83,500) claims pending. During 1999, approximately 33,300 (1998: 69,000) new claims were filed and 38,800 (1998: 44,000) claims were settled, dismissed or otherwise resolved.

The T&N companies had previously appointed the Center for Claims Resolution ("CCR") as their exclusive representative in relation to all asbestos-related personal injury claims made against it in the United States. With effect from 18 January 2000, the Company's US subsidiaries withdrew from the CCR membership and appointed a law firm specialising in asbestos matters as their claims handling defence and administrative service provider. Indemnity and defence obligations incurred while members of the CCR will continue to be honoured. This change is intended to create greater economic and defence efficiencies for the two companies. The T&N companies have entered into $250m of surety to meet collateral requirements for settlements established by the CCR and are currently in negotiation on both the amount and form of the surety needed to meet any continuing collateral requirements.

In 1996, T&N Limited purchased a £500 million layer of insurance which will take effect should the aggregate amount of claims for the T&N companies filed after 30 June 1996, where the exposure occurred prior to that date, exceed £690 million. The initial reserve for the T&N companies for claims filed after that date was approximately equal to the insurance excess of £690m. Management has reviewed the financial viability and legal obligations of the three re-insurance companies and has concluded, at this time, that there is little risk of the insurers not being able to meet their obligation to pay.

While management believes that reserves are appropriate for anticipated losses arising from the Group's asbestos-related claims, given the nature and complexity of the factors affecting the estimated liability, the actual liability may differ. No absolute assurances can be given that the Group will not be subject to material additional liabilities and significant additional litigation relating to asbestos. This matter is continuously reviewed and monitored by management. In the possible, but unlikely event that such liabilities exceed the reserves recorded and the additional insurance coverage, the Group's results could be materially adversely affected. The reserve is re-evaluated periodically as additional information becomes available. While management believes the reserve plus insurance to be adequate, an econometric firm that specialises in these types of issues has been appointed to give a current estimate of the total liability based on the most up to date information available.Management expects the study to be completed before 31 December 2000.

b) Guarantees

Along with other Federal-Mogul subsidiaries, the company has entered into guarantees to the value of $2.45m in respect of borrowings on behalf of Federal-Mogul Corporation, its ultimate parent company.

Notes To The Financial Statements For The Year Ended 31 December 1999

30. Principal subsidiaries and trade investments at 31 December 1999

Holding Companies

T&N Industries Inc
Federal-Mogul Global Growth Limited *
Brake Acquisitions Inc

Powertrain Systems

Federal-Mogul South Bend Inc
Federal-Mogul Powertrain Inc (76.1%)
Federal-Mogul Sintered Products Inc (76.1%)
Federal-Mogul Camshafts Inc
Federal-Mogul Assembled Camshafts Inc (80%)
Federal-Mogul RPB Inc
Federal-Mogul Engineering Bearings Inc
Federal-Mogul Carolina Inc
Federal-Mogul LaGrange Inc
Federal-Mogul Flowery Branch, LLC

Sealing Systems

McCord Payen Technical Services Inc
Federal-Mogul Sealing Systems Inc
Federal-Mogul Systems Protection Group Inc
Federal-Mogul Acquisition Company Ltd

General Products

Federal-Mogul Friction Products Inc (80%)

Non Operating Companies

FP Diesel Limited

Apart from FP Diesel Limited, Federal-Mogul Global Growth Limited and Federal-Mogul Acquisition Company Limited, all companies operate in the USA, and are wholly owned by T&N Industries Inc. (unless otherwise stated)

* Trade investment

31. Ultimate and intermediate holding undertaking

The intermediate parent undertaking is Federal-Mogul UK Holdings Inc, a company registered in the USA. The ultimate holding undertaking is Federal-Mogul Corporation registered in the USA. Financial statements of this company may be obtained from Federal-Mogul Investor Relations, 26555 Northwestern Highway, Southfield, MI 48034, USA.