

Federal-Mogul (Continental European Operations) Limited

Company Number 05642166

Directors' Report for the Year Ended 31st December 2007

The directors present their report and financial statements for the year ended 31 December 2007

Activities

The principal activity of the Company is that of an investment company and it is not envisaged that this will change in the foreseeable future

During the year the company disposed of a loan note to fellow group companies, making a profit on disposal of £43.4m

Results for the year can be found on page 6

The Company made a profit after tax of £80.4m in the year (2006: £16.8m)

The directors do not recommend payment of a dividend (2006: £nil)

Treasury Policies

Financial Instruments

The Company's financial instruments comprise of balances with group undertakings and cash at bank. The main purpose of these financial instruments is to raise finance for the Company's operations. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Interest Rate Risk

During the year the Company held a loan with a fellow group undertaking. This was disposed of prior to the year end. The interest rate applying on this was fixed and so there was no interest rate risk. During the year new loans were made to fellow group undertakings. The interest on these loans is at a floating rate since the note is linked to the bank base rate. However, no specific action is taken to hedge the corresponding interest rate exposure since there is minimal risk to the group as a whole.

Foreign Currency Risk

During the year the Company had an intra-group loan which was denominated in a foreign currency. This was disposed of prior to the year end. As a member of a multi-national group, the Company does not hedge currency exposure in relation to intra-group loans. The Company also has a bank account which is denominated in a foreign currency for use in relation to interest receipt. These receipts are transferred out of the accounts within a short period of time, thus reducing any foreign currency risk.



Federal-Mogul (Continental European Operations) Limited

Company Number 05642166

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

Parent Undertaking

On 1 April 2008 the Company's immediate parent company became Federal-Mogul Investments BV, a company registered in the Netherlands

Directors

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

A C Boydell
E J Milner (appointed 13 November 2007)
J D Turner (resigned 16 November 2007)

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

Date: 23.10.08

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) 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
(CONTINENTAL EUROPEAN OPERATIONS) 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, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 13. 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 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 judgments 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
(CONTINENTAL EUROPEAN OPERATIONS) 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 profit 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

24 October 2008.

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £m	13 months to 31 December 2006 £m
Bank fees and charges		-	-
Foreign currency (loss)		(0 3)	(0 1)
Other Administrative income / (expense)		0 6	(0 6)
Operating profit / (loss)		<u>0 3</u>	<u>(0 7)</u>
Net interest receivable	2	25 8	21 1
Profit on disposal of investments	4	43 4	1 6
Profit on ordinary activities before taxation	3	<u>69 5</u>	<u>22 0</u>
Tax on profit on ordinary activities	6	10 9	(5 2)
Retained profit on ordinary activities after taxation	12	<u>80 4</u>	<u>16 8</u>

A reconciliation of movements in shareholders' funds is given in note 12 of the financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses other than the profit for the year ended 31 December 2007 and the profit for the period ended 31 December 2006

All results have been derived from continuing operations

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2007

	Notes	2007 £m	2006 £m
<u>Current Assets</u>			
Investment	7	-	180 2
<u>Debtors</u> amounts falling due within one year	8	98 6	-
Cash at bank		0 1	16 1
		<u>98 7</u>	<u>196 3</u>
<u>Creditors</u> amounts falling due within one year	9	<u>(1 5)</u>	<u>(125 9)</u>
Net current assets		97 2	70 4
 Provisions for liabilities and charges	10	<u>-</u>	<u>(53 6)</u>
Net assets		<u>97 2</u>	<u>16 8</u>
<u>Capital and Reserves</u>			
Called up share capital	11	-	-
Profit & loss account	12	<u>97 2</u>	<u>16 8</u>
Shareholders' funds – equity	12	<u>97 2</u>	<u>16 8</u>

The financial statements on pages 6 to 12 were approved by the Board on 23 October 2008 and were signed on its behalf by -


Director

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

NOTES FORMING PART OF THE ACCOUNTS

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with applicable UK Accounting Standards and under the historical cost convention

(b) Foreign currency translation

Transactions in foreign currency are recorded at the rate ruling at the date of transaction. Any monetary assets or liabilities denominated in foreign currency are retranslated at the year end rate

Exchange differences arising in the ordinary course of business are included in profit on ordinary activities before taxation

(c) 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 exception

- 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

(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 prepares a consolidated cash flow statement

(e) 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 Corporation group

(f) Investments

Investments held with a view to a sale are recorded as current assets at the lower of cost and net realisable value

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

2	<u>NET INTEREST RECEIVABLE</u>	2007	2006
		£m	£m
	Interest receivable from group companies	16 5	24 6
	Interest receivable on bank accounts	0 1	0 4
	Exchange movement on loans denominated in a foreign currency	9 2	(3 9)
	Net interest receivable	<u>25 8</u>	<u>21 1</u>

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The audit fees of £11,000 (2006 £10,000) were borne by a fellow group company during the year. However the Company incurred non-audit costs (taxation services) of £nil (2006 £24,311).

4 PROFIT ON DISPOSAL OF INVESTMENTS

The profit on disposal of investments is a profit of £43.4m on the sale of the large German loan note (See note 7 for more details).

5 DIRECTORS AND EMPLOYEES

None of the directors of the Company received any emoluments in respect of their services as a director of the Company during the year (2006 £nil).

There are no employees of the Company (2006 nil).

6 TAXATION

(a) Analysis of (credit) / charge in the period

	2007	2006
	£m	£m
Current tax		
<u>UK Corporation tax</u>		
UK corporation tax @ 30% on profits of the period	-	16 6
Adjustment in respect of previous period	(10 9)	-
Double taxation relief	-	(0 5)
	<u>(10 9)</u>	<u>16 1</u>
Overseas taxation paid	-	0 5
Total current tax (note 6(b))	<u>(10 9)</u>	<u>16 6</u>
Deferred tax (note 10)	-	(11 4)
Tax on profit on ordinary activities	<u>(10 9)</u>	<u>5 2</u>

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

6 TAXATION (CONTINUED)

(b) Factors affecting tax charge for period

The tax (credited) / charged for the period is lower (2006 – higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2007 £m	2006 £m
Profit on ordinary activities before taxation	<u>69 5</u>	<u>22 0</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	20 8	6 6
Effect of		
Non-taxable gains arising from intra-group transfer	(13 1)	-
Expenses not deductible for tax purposes		0 2
Foreign exchange adjustments	1 8	(1 1)
Held over gain arising from sale of loan notes net of accounts profit on disposal	-	10 9
Group relief received for nil payment	(9 5)	-
Adjustment in respect of previous period	(10 9)	-
Current tax (credit) / charge for period (note 6(a))	<u>(10 9)</u>	<u>16 6</u>

At 31 December 2006, the Company's provision for corporation tax included £11.3m in respect of deferred chargeable gains that crystallised in 2006 on the disposal of certain loan note investments. Following the emergence of fellow subsidiaries from the protection of Chapter 11 bankruptcy, agreement has been reached for the Company to pass this tax liability to another group company with tax losses available to offset against the crystallised gain. The consideration payable by the Company for the transfer of this liability is £424,000. The remaining £10.9m of the original provision has been credited to the profit and loss account.

(c) Factors that may affect future tax charges

The Finance Act 2007 included changes that affect future tax charges. The rate of Corporation Tax has reduced from 30% to 28% with effect from 1 April 2008. The change in tax rates will affect future cash flows and the rate applicable to deferred tax recognised in the balance sheet, if any.

7 INVESTMENT

	£m
<u>Amount owed by fellow subsidiary undertaking</u>	
At 1st January 2007	180 2
Currency translation	9 2
Deferred tax release	(53 6)
Disposal	<u>(135 8)</u>
At 31st December 2007	<u>-</u>

In 1998 and 2001 fellow group subsidiaries disposed of investments for which the proceeds took the form of loan notes. During 2005, three of these loan notes were transferred to the Company. In 2006, the Company disposed of two of the loan notes leaving, at the end of 2006, a German loan note due from Federal-Mogul Deutschland GmbH, a fellow subsidiary undertaking.

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

7 INVESTMENT (CONTINUED)

On 10 December 2007, the Company entered into agreements with certain fellow UK subsidiary undertakings to sell the loan note, together with related interest due. At the date of sale the book value of the loan note, after taking into account deferred tax of £53.6m, was £135.8m and unpaid interest receivable was £16.1m. Total consideration received was £195.3m giving rise to a profit of £43.4m. At the same time, the Company assigned the right to payment of £97.8m of its sale proceeds to Federal-Mogul Finance 2, LLC ("US LLC2") in satisfaction of the whole of the outstanding principal liability of the Company to US LLC2.

8	<u>DEBTORS</u> Amounts falling due within one year	2007	2006
		£m	£m
	Amounts owed by fellow subsidiary undertakings	98.6	0.6
	Bad debt provision	-	(0.6)
	UK taxation	-	-
		<u>98.6</u>	<u>-</u>

9	<u>CREDITORS</u> Amounts falling due within one year	2007	2006
		£m	£m
	Amounts owed to ultimate parent undertaking	0.6	2.3
	Amounts owed to fellow subsidiary undertakings	0.9	110.3
	UK taxation	-	13.3
		<u>1.5</u>	<u>125.9</u>

10 PROVISIONS FOR LIABILITIES

	Deferred tax provided	2007	2006
		£m	£m
	Deferred gains on loan notes	-	53.6
	Provision for deferred tax	-	53.6

	Deferred Gains
	£m
At 1 December 2005	-
On acquisition of loan notes	65.0
Deferred tax credit in profit and loss account for the period (note 6(a))	<u>(11.4)</u>
At 31 December 2006	53.6
On disposal of loan notes	<u>(53.6)</u>
At 31 December 2007	<u>-</u>

In 1998 and 2001 fellow group subsidiaries disposed of investments for which the proceeds took the form of loan notes. The capital gains tax liabilities on the disposals do not crystallise until the loan notes are redeemed or sold to a non-UK group company or a third party. During 2005, the loan notes were transferred to the Company which thereafter assumed any capital gains tax liabilities that might crystallise on redemption or sale of the loan notes.

FEDERAL-MOGUL (CONTINENTAL EUROPEAN OPERATIONS) LIMITED

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

10 PROVISIONS FOR LIABILITIES (CONTINUED)

During 2006 the Company disposed of certain loan notes to fellow group companies. These disposals were to companies that did not form part of the UK capital gains tax group and the liabilities therefore crystallised resulting in a corporation tax charge in 2006 and release of £11.4m of the deferred tax provision. Therefore, the balance of the deferred tax provision at 31 December 2006 related to the remaining note held within investments. During 2007, the Company disposed of the remaining loan note to fellow UK group companies. This disposal did not crystallise the deferred capital gains liabilities and the acquiring companies have assumed thereafter any capital gains tax liability that might crystallise on redemption or sale of the loan note. The deferred tax balance in the Company has been released to the profit and loss account as part of the profit on disposal.

11	<u>SHARE CAPITAL</u>	2007 £	2006 £
	Authorised, allotted, issued and fully paid 10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital	Profit and loss Account	Total
	£m	£m	£m
Shares issued in 2005	-	-	-
Profit for the period 2006	-	16.8	16.8
At 31 December 2006	-	16.8	16.8
Profit for the year 2007	-	80.4	80.4
At 31 December 2007	-	97.2	97.2

13 ULTIMATE PARENT COMPANY

The Company's 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.