T&N Limited (In Administration)

Directors' report for the year ended 31 December 2001

The directors of T&N Limited (In Administration) ("the Company") present their annual report for the year ended 31 December 2001 together with the audited financial statements for the year.

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. The affairs, business and property of the Company are being managed by Kroll Limited, the administrators.

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 should allow Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves that will be used by the Administrators to provide distributions to creditors.

This agreement is subject to various approvals and determinations by the UK and US Courts before it can be implemented.

Preparation of financial statements

The Company is required to prepare consolidated financial statements by Section 227 of the Companies Act 1985 and Financial Reporting Standard 2 "Accounting for Subsidiary Undertakings". The directors have not prepared consolidated financial statements. Consequently these financial statements are for the Company only.

Principal activities

The principal activities are the manufacture of automotive components for the original equipment manufacturers and aftermarket outlets.

Turnover and results

Turnover for the year was £306.8m (2000 £333.0m). Operating loss before asbestos-related costs was £22.9m (2000 loss: £5.8m). The loss after tax was £95.7m (2000 restated loss: £206.9m). No dividends are proposed (2000: £nil).

Significant events

The closure of the UK research and development centre based at Cawston was announced on 21 September 2000. The closure process continued throughout 2001 and was completed in January 2002.

On 14 August 2001, the Company sold the trade and assets of the rotating plant bearings business giving rise to a profit of £12.6m. On 1 April 2001, the Company sold Intellectual Property Rights to other Federal-Mogul group companies for £16.6m.

Significant events (continued)

On 24 September 2001, the Company acquired loans receivable from Federal-Mogul SA, Federal-Mogul Deutschland GmbH and Federal-Mogul SpA with a face value of £453.3m from T&N International Limited and AE International Limited, Federal-Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and filing under Chapter 11 of the US Bankruptcy Code. Under the terms of the sale and purchase agreement the purchase price is to be determined by a third party expert based on an arms' length market price. The purchase price is to be left outstanding on interest-bearing loans. The loans, and any unpaid interest, are secured by a floating charge over the loans acquired. All these loans are Euro denominated. Further information on this matter is included in note 11 of the financial statements.

In December 2001, one of the three asbestos reinsurers, European International Reinsurance Company Limited (EIR), filed a suit in the High Court to challenge the validity of its reinsurance contract with the Company. The trial commenced in October 2003. Prior to the conclusion of the trial the parties were able to reach a settlement. Further information on this matter is included in note 22 of the financial statements.

On 16 July 2004 the Administrators took the decision to withdraw the Associated Employers from the Pension Scheme, leaving only the Principal Employer, T&N Limited. At the time, it was estimated that if the Pension Scheme's liabilities were calculated on the basis of a winding up, the deficit would be approximately £875m. On an ongoing funding basis it was estimated that the deficit would be approximately £300m. A more recent estimate of these deficits, based on the latest actuarial valuation of the Pension Scheme carried out at 31 March 2004, is £1,810m and £674m respectively.

Following the action of the Administrators negotiations continued with the Chapter 11 Plan Proponents and on 26 September 2005, the Company, its ultimate parent, Federal-Mogul Corporation and the Plan Proponents entered into a Global Settlement Agreement with the Administrators and the Pension Protection Fund. This agreement covers, amongst other things, funding arrangements to allow the Administrators to provide distributions to creditors, one of which is the Pension Scheme.

This agreement is subject to various approvals and determinations by the UK and US courts before it can be implemented. Further information on this matter is included in note 8 of the financial statements.

Post balance sheet events

On 9 December 2005, the Company entered into an agreement with the Administrators, Federal-Mogul Corporation and Federal-Mogul (Continental European Operations) Limited, both fellow group undertakings, to sell the French, German and Italian loan notes. The French loan notes were sold to Federal-Mogul Corporation, and the German and Italian notes to Federal-Mogul (Continental European Operations) Limited. The total provisional consideration was £207.5m compared to an unaudited book value in the management accounts of the Company as at 30 December 2005 of £534.5m giving rise to a loss of £326.8m.

Research and development

The research and development activities of the Company continue to be directed principally towards the development of new products and to improving the performance and effectiveness of existing products. In 2001 expenditure amounted to £9.4m (2000 £17.1m).

Asbestos-related costs

The Company and two of its fellow subsidiaries of Federal-Mogul Corporation in the USA 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. The Company is also subject to asbestos-disease litigation, to a lesser extent, in the United Kingdom. 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 how many such claims will be made, nor the expenditure which may arise therefrom. As of 31 December 2001, the Company has provided for £626.7m (2000 £699.9m) in respect of future costs related to resolving asbestos claims and £nil (2000 £33.0m) in accruals for settled claims and costs. Further information is included in note 22 of the financial statements.

Directors and senior executives

The following served as directors of T&N Limited during the year:

- D Bozynski
- D M Sherbin, resigned 22nd December 2004
- N S Shilts, resigned 29th June 2004
- M C Verwilst, resigned 9th January 2001
- J Zamoyski, resigned 28th November 2003

Employees and employment policies

The Company has over 3,900 employees located in the UK.

It is the Company's policy to provide equal opportunities to all employees. The Company 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 disabled persons. Employees who become disabled will be retained in employment wherever possible and, where necessary, appropriate retraining will be provided.

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

Directors Interests

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

Creditor payment policy

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

Donations

The Company made charitable donations amounting to £26,773 (2000: £58,120) in the year. There were no political donations.

Auditors

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP, as the Company's auditor will be put to the forthcoming Annual General Meeting.

By Order of the Board

David G Boyle.

Director

Date 6/7/06

T&N Limited (In Administration)

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year. 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 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 which 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. In addition, the directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T&N LIMITED (IN ADMINISTRATION)

We have audited the Company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet, Statement of total recognised gains and losses, Note of historical cost profits/(losses), Reconciliation of movements in shareholders' funds and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statement in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 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. However, the evidence available to us was limited as described below. As set out in note 11 to the financial statements, during 2001 the Company acquired loans with a face value of £453.3m and accrued interest of £22.8m from T&N International Limited and AE International Limited. Under the terms of the sale and purchase agreement the purchase price for the loan notes is to be determined by a third party expert based on an arm's length market price. The purchase price is to be left outstanding on an interest-bearing loan. At the time of approval of these financial statements the valuation on which the purchase price is to be based is not yet available. For the purposes of these financial statements it has been assumed that the purchase price is equal to the face value of the loan

Basis of audit opinion (continued)

and accrued interest thereon. Under the terms of the sale and purchase agreement, pending determination of the purchase price, for the purposes of the calculation of interest payable by the Company, the purchase price is assumed to be 50% of the face value. This figure has been used in accruing interest payable in these financial statements. Interest receivable reflects the coupon on the loan note investments, as these investments have been recorded at their face value plus accrued interest. Should an expert valuation in accordance with the sale agreement be performed, there will be consequent adjustments to the balances recorded for the loan note investment, the loan note payable (and accrued interest amounts thereon), and to interest receivable and interest payable in the profit and loss account. The financial statements include balances for the loan note investment including accrued interest receivable of £467.9m (2000: £nil) and for the loan note payable and accrued interest payable of £463.7m (2000: £nil) and the profit and loss account includes interest receivable of £9.0m (2000: £nil) and interest payable of £4.7m (2000: £nil) in respect of this matter. There were no other satisfactory audit procedures that we could adopt to confirm that the amounts included above in respect of the loan notes were properly recorded.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty – Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements regarding the filing by the Company for financial restructuring under Chapter 11 of the U.S. Bankruptcy Code and for Administration under the U.K. Insolvency Act of 1986. The financial statements are prepared on the going concern basis, the validity of which depends on the outcome of these proceedings. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Fundamental uncertainty – Asbestos Litigation

In forming our opinion we have also considered the adequacy of the disclosures in notes 1 and 22 to the financial statements regarding the impact of the above filings on pending asbestos-related litigation against the Company. As a result of the filings there is a fundamental uncertainty in estimating the level of the future asbestos liability, the mechanism in place to settle the liability and the size and recoverability of the related insurance recovery. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Fundamental uncertainty - Pension

In forming our opinion we have considered the adequacy of the disclosures in note 8 to the financial statements regarding the T&N Retirement Benefits Scheme. This note indicates that there is a fundamental uncertainty in estimating the level of future liability in respect of the Scheme. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Adverse opinion

Recoverability of group balances

Included in debtors in the balance sheet is an amount of £60.9m (2000: £12.5m) due from Federal-Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and/or a filing under Chapter 11 of the US Bankruptcy Code. The Company has no security for this debt. In our opinion the Company is unlikely to receive full payment and a provision of up to £60.9m (2000: £12.5m) should have been made, increasing net liabilities by up to that amount.

Included in fixed asset investments in the balance sheet is an amount of £128.8m (2000: £119.0m) due from Federal-Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and/or a filing under Chapter 11 of the US Bankruptcy Code. The Company has no security for this debt. In our opinion, the Company is unlikely to receive full payment and a provision of up to £128.8m (2000: £119.0m) should have been made, increasing net liabilities by up to that amount.

Also included in the balance sheet is an amount of £534.5m (2000: £534.5m) representing the Company's investments in Federal-Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and/or a filing under Chapter 11 of the US Bankruptcy Code. In our opinion the Company is unlikely to realise full value from these investments and a provision of up to £534.5m (2000: £534.5m) should have been made, increasing net liabilities by up to that amount.

Failure to prepare group financial statements

As more fully explained in note 2, group financial statements have not been prepared incorporating the Company's subsidiaries and equity accounting for the group's associates. In our opinion:

- the subsidiaries meet the criteria in which Financial Reporting Standard 2 requires the preparation of group financial statements.
- information about the Company and its subsidiary undertakings as a single economic entity, in order to show the economic resources controlled by the group, the obligations of the group and the results the group achieves with its resources, is necessary for a proper understanding of the Company's state of affairs and profit.

It has not been practicable to quantify the consolidated net assets and profit of the group had group financial statements been prepared.

Departure from FRS 12 "Provisions, contingent liabilities and contingent assets"

The asbestos provison and related insurance recoverable have been recorded at their discounted amounts as at 31 December 2000 less payments made in the period 1 January 2001 and 1 October 2001 and an adjustment to the insurance recoverable. No subsequent unwinding of the discount on the asbestos provision and related insurance recoverable has been reflected in the current year. This is not in accordance with FRS 12 "Provisions, contingent liabilities and contingent assets". It is not practicable to quantify the financial impact of this departure.

Omission of certain disclosures required by Schedule 5 to the CompaniesAct 1985

Schedule 5 to the Companies Act 1985 requires, in respect of interests in subsidiaries, and other significant holdings in undertakings held by the Company details of the capital and reserves at the end of the year, and profit or loss for the year. As explained in Note 2, these details have not been given.

In view of the effect of the adjustments to the carrying amount of the loan note assets and liabilities and loan note interest receivable and payable that would be necessary should a valuation of the loan notes be obtained, and in view of the effect of the absence of the provisions against investments and debtors and the failure to unwind the discount on the asbestos provision and related insurance recoverable, in our opinion the financial statements do not give a true and fair view of the state of the Company's affairs as at 31 December 2001 and of the loss of the Company for the year then ended.

In view of the effect of the failure to consolidate the Company's subsidiaries, in our opinion the financial statements do not give a true and fair view of the state of the affairs of the group as at 31 December 2001 and of its result for the year then ended.

Except for the adjustments to amounts in respect of the loan notes that would be necessary should a loan note valuation be obtained and except for the absence of the provisions referred to above and the failure to prepare group financial statements and the non-compliance with FRS 12 "Provisions, contingent liabilities and contingent assets" and except for the omission of the details of financial information required by Schedule 5 to the Companies Act 1985 in respect of interests in subsidiaries and other significant holdings, in all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985

In respect alone of the limitation on our work relating to the valuation of the loan note assets and liabilities and loan note interest receivable and payable referred to above:

- We have not obtained all information and explanations that we consider necessary for the purpose of our audit.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Manchester

10 July 2006

T&N Limited (In Administration)

Profit and loss account for the year ended 31 December 2001

	Notes	2001 £m	2000 Restated £m
Total Turnover		306.8	333.0
Cost of sales		(249.1)	(260.5)
Gross profit		57.7	72.5
Other operating expenses – (excluding asbestos – related costs)	3	(80.6)	(78.3)
Operating loss before asbestos-related costs		(22.9)	(5.8)
Asbestos-related costs		(13.1)	(212.7)
Operating loss on ordinary activities		(36.0)	(218.5)
Profit on disposal of businesses	4	12.6	30.5
Profit on disposal of intangible fixed assets	4	16.6	-
Loss on ordinary activities before finance charges and dividends		(6.8)	(188.0)
Net interest payable	5	(8.5)	(18.8)
Income from shares in group undertakings		-	1.2
Loss on ordinary activities before taxation	3	(15.3)	(205.6)
Tax on loss on ordinary activities	6	(80.4)	(1.3)
Loss on ordinary activities after taxation		(95.7)	(206.9)
Loss attributable to shareholders		(95.7)	(206.9)

The results above all relate to continuing operations.

T&N Limited (In Administration)

Balance sheet as at 31 December 2001

	Notes	2001 £m	2000 Restated £m
Fixed assets			
Tangible assets	10	126.8	133.4
Investments	11	1,110.7	664.7
		1,237.5	798.1
Current assets			
Stocks	12	31.1	36.5
Debtors falling due within one year	13	131.2	74.6
Debtors falling due after more than one year	13	279.4	289.9
Cash at bank and in hand		37.3	6.7
		479.0	407.7
Creditors: Amounts falling due within one year	14	(139.3)	(198.2)
Net current assets		339.7	209.5
Total assets less current liabilities		1,577.2	1,007.6
Creditors: Amounts falling due after more than one year	15	(1,046.1)	(419.0)
Provisions for liabilities and charges	17	(739.3)	(701.1)
Net liabilities		(208.2)	(112.5)
Capital and reserves:			
Called up share capital	18	222.2	222.2
Share premium account	19	11.0	11.0
Special reserve	19	64.2	64.2
Profit and loss account	19	(505.6)	(409.9)
Deficit on equity shareholders' funds		(208.2)	(112.5)

The financial statements on pages 10 to 28 were approved by the Board on 6th July 2006 and signed on its behalf by:

David G Boyle

Director

T&N Limited (In Administration)

Statement of total recognised gains and losses

For the year ended 31 December	2001 £m	2000 Restated £m
Loss attributable to shareholders	(95.7)	(206.9)
Total recognised gains and losses relating to the year	(95.7)	(206.9)
Prior year adjustment (as explained in note 20)	(2.3)	
Total gains and losses recognised since last annual report and financial statements	*(98.0)*	

Note of historical cost profits/(losses)

For the year ended 31 December	2001 £m	2000 Restated £m
Reported loss on ordinary activities before taxation	(15.3)	(205.6)
Realisation of revaluation surpluses	-	1.5
Difference between the historical depreciation charge and the actual depreciation charge	-	0.1
Historical cost loss on ordinary activities before taxation	*(15.3)*	*(204.0)*
Historical cost loss for the year after taxation, minority interests and dividends	(95.7)	(205.3)

Reconciliation of movements in shareholders' funds

For the year ended 31 December	2001 £m	2000 Restated £m
Loss attributable to shareholders	(95.7)	(206.9)
Dividends	-	-
Transfer from reserves	(95.7)	(206.9)
Other recognised gains and losses (as above)	-	-
Net change	(95.7)	(206.9)
Shareholders' funds at start of year (originally £110.2m before adding prior year adjustment of £2.3m)	(112.5)	94.4
Shareholders' funds at end of year	(208.2)	(112.5)

Notes to the financial statements for the year ended 31 December 2001

1. Accounting policies

The Company follows applicable UK Accounting Standards and Practice. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain classes of fixed assets. The transitional arrangements of FRS17 'Retirement Benefits' apply for the first time this year. The required disclosures are included in note 8.

Fundamental uncertainties

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 should allow Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves that will be used by the Administrators to provide distributions to creditors.

This agreement is subject to various approvals and determinations by the UK and US Courts before it can be implemented.

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the outcome of the above proceedings. The directors of Federal-Mogul Corporation have stated that the actions are intended to preserve the companies' businesses and allow a reorganisation of their assets while protecting them from actions by creditors and asbestos claimants. It is likely that the final outcome will not be known for some time. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

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

The filings referred to above have a significant impact on the position regarding the Pension Scheme and pending asbestos-related litigation against the Company. This issue is discussed further in notes 8 and 22 respectively.

Deferred tax

Deferred tax is attributable to timing differences between results as computed for tax purposes and as stated in the accounts. 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 accounts. 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.

Depreciation

Depreciation is provided on cost or the revalued amount, as applicable, to write fixed assets, other than freehold land, down to their estimated residual values on a straight line basis as follows:

- 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% to 33% per annum.

Foreign currencies

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

Grants

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

Investments

Fixed asset investments are stated at cost less provision for any impairment.

Leasing

Finance leases of significant items of plant and machinery are capitalised and depreciated in accordance with the Company'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 financing charges. Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions

The cost of providing pensions is charged against profits on a systematic basis, with pension surpluses and deficits being amortised over the expected remaining service lives of current employees. Differences between the amount charged in the profit and loss account and payments made to the plans are treated as assets or liabilities in the balance sheet in accordance with SSAP24.

Research and development

Research and development revenue expenditure, including all expenditure on internally generated patents and trademarks, is written off when incurred.

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 the costs of realisation.

Turnover

Turnover is the value of sales to third parties at net invoice value excluding value added tax or equivalent overseas sales taxes.

2. Consolidation and related party disclosures

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

The Company is required to prepare group financial statements by Section 227 of the Companies Act 1985 and Financial reporting Standard 2 "Accounting for Subsidiary Undertakings". The directors have not prepared group financial statements. Consequently, these financial statements are for the Company only.

The Company has not presented segmental information required by the Companies Act 1985 as, in the opinion of the directors, this disclosure would be seriously prejudicial to the interests of the Company.

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

Companies are required under Schedule 5 to the Companies Act 1985 to provide details of the capital and reserves at the end of the financial year, and profit or loss for the financial year in respect of interests in subsidiaries, and other significant holdings in undertakings held by the Company. In previous years prior to the Administration of the Company on 1 October 2001 this has not been required because Federal-Mogul Global Growth Limited prepared group accounts and this company and other intermediate holding companies were exempt under s228 of the Companies Act 1985 from preparing group accounts and providing this information. It has not been practicable to provide this information. The list of subsidiaries and significant holdings in Note 24 and the information is available in respect of the UK companies from their latest published accounts.

3. Analysis of results

(a) Other operating expenses	2001 £m	2000 £m
Selling and distribution costs	18.7	21.4
Administrative expenses	44.8	39.8
Research and development	9.4	17.1
Exceptional item – Costs of Administration and Chapter 11 filing	7.7	-
Other operating expenses	80.6	78.3

During the year, the Company incurred administrative costs of £3.7m (2000 £nil) from Kroll Limited, the administrators. At the financial year end, £1.7m (2000 £nil) was due to Kroll Limited. This amount was included within Creditors: amounts falling due within one year.

(b) Administrative expenses include £4.4m (2000: £20.5m) in respect of redundancy and rationalisation.

3. Analysis of results (continued)

(c) Loss before taxation is stated after charging/(crediting):	2001 £m	2000 £m
Auditor's and its associates' remuneration		
- as auditors	0.3	0.3
- fees for other services within the UK	0.4	0.5
Depreciation of tangible fixed assets		
- owned assets	16.6	18.9
(Release of)/provision for impairment of tangible fixed assets	(4.3)	9.3
Operating lease rentals		
- on plant and machinery	2.0	2.2
- on land and buildings	1.6	2.2
Loss/(gain) on disposal of fixed assets – continuing operations	7.5	(2.7)
Gain on foreign exchange movements	(0.7)	(1.6)

The auditor's remuneration in both years includes the cost of auditing other Federal-Mogul group companies.

The release of the impairment of tangible fixed assets relates to the reassessment of the realisable value of assets based on actual amounts realised.

4 Disposal of businesses

On 1 April 2001, the Company sold Intellectual Property Rights to other Federal-Mogul group companies for £16.6m

On 14 August 2001, the Company sold the trade and assets of its rotating plant bearings business giving rise to a profit of £12.6m.

The profit on disposal of businesses of £30.5m in 2000 related to the sale of the oil filtration business and the disposal of the Sunderland piston ring business to a fellow subsidiary.

5. Net interest payable	2001 £m	2000 Restated £m
Interest payable on group loans	(17.3)	(9.2)
Interest payable on bank loans and overdrafts	(1.8)	(1.2)
Unwinding of discounted asbestos provisions	-	(8.8)
	(19.1)	(19.2)
Interest receivable on group loans	10.6	0.4
Net interest payable	(8.5)	(18.8)

6. Tax on loss on ordinary activities	2001 £m	2000 £m
Current year UK Corporation tax at 30% (2000: 30.0%)	(11.8)	-
Overseas corporate taxes (release)/charge	(4.9)	1.3
Advance corporation tax	(1.5)	-
Deferred tax	112.1	-
Adjustments in respect of prior year periods	(13.9)	-
	80.0	1.3
Overseas taxation paid	0.4	-
	80.4	1.3

The current year tax credit relates to the surrender of tax losses to fellow subsidiaries. Adjustments in respect of prior periods include £10.2m in respect of group relief surrendered for payment in respect of earlier years. Advance corporation tax relates to ACT surrendered in the year for which payment has fallen due.

Total tax losses of approximately £183m (2000: £103m) are carried forward for utilisation against profits arising from the same trade.

7. Employees	**2001**	**2000**
Monthly average number of employees	4,107	4,821

Employment costs	**2001 £m**	**2000 £m**
Wages and salaries	97.3	106.3
Social security costs	8.2	8.4
Other pension costs (Note 8)	16.8	(5.2)
Redundancy payments	3.6	4.7
	125.9	114.2

8. Pensions commitments

The Company operates a defined benefit pension scheme. The assets of the scheme are held in a separate trustee-administered fund.

The major pension costs are	**2001 £m**	**2000 £m**
UK Charge/(Credit)	16.8	(5.2)

The T&N Retirement Benefits Scheme(1989), (the "Pension Scheme"), is a defined benefit scheme covering the majority of the Company's employees. The pension cost is assessed in accordance with the advice of independent qualified actuaries in order to secure final salary-related benefits. The pension costs are based upon the results of an actuarial review carried out as at 31 March 2001. At 31 March 2001 the market value of the assets of the Pension Scheme was £1,144m and the actuarial value of these assets represented 93% of the benefits that had accrued to members, after allowing for increases in future earnings and pensions. As a result of post valuation discussions between the Company and the Pension Scheme's Trustee, various benefit alterations and changes to the Pension Scheme's investment strategy are being implemented. The assumptions made which have the most significant effect on the results of this valuation are those relating to the differentials between the rates of return on investments and the rates of increase in salaries and pensions. For the purposes of SSAP24 expensing, it was assumed, that the investment return would be 1.5% per annum higher than the rate of annual salary increases, and 2.75% per annum higher than the rate at which present and future pensions would increase.

The deficit in the Pension Scheme is being amortised over 14 years, being the average remaining service lives of employees. The resultant SSAP 24 charge, including interest, was £16.6m (2000: credit £5.2m). The credit in 2000 reflected the amortisation of a surplus in the Pension Scheme at the date of the previous actuarial valuation in 1998. Employer contributions of £0.2m (2000: £nil) were made to the Pension Scheme during the year.

During the year the prepayment in respect of pensions for the Pension Scheme decreased by £16.6m to £44.3m at the end of 2001. This amount is included in debtors (Note 13). As the Pension Scheme was closed to new members as from 16 July 2004, the current service cost is expected to increase as the members approach retirement.

On 16 July 2004 the Administrators took the decision to withdraw the Associated Employers from the Pension Scheme, leaving only the Principal Employer, T&N Limited. They took this decision when it became clear that, under the proposed Plan of Reorganization, a settlement could not be secured for an injection of sufficient funds into the Pension Scheme to provide the Independent Trustee with the confidence that the Pension Scheme could continue. At the time it was estimated that if the Pension Scheme's liabilities were calculated on the basis of a winding up, the deficit would be approximately £875m. On an ongoing funding basis it was estimated that the deficit would be approximately £300m. A more recent estimate of these deficits, based on the latest actuarial valuation of the Pension Scheme carried out at 31 March 2004, is £1,810m and £674m respectively.

The Administrators have a legal duty to seek to balance the interests of the Pension Scheme, and the Pension Scheme members, with those of the other creditors, including those with asbestos personal injury claims. It was in order to balance those interests that the Administrators made that decision.

8. Pensions commitments(continued)

Because of the very complex and highly sensitive nature of the issue, the Administrators sought the guidance of the English Court as to the action that should be taken. The Court made an Order directing the Administrators to withdraw the Associated Employers from the Pension Scheme.

The reasoning behind taking the decision to withdraw was twofold:

The Administrators felt that unless they took this precautionary action, the Independent Trustee could have taken unilateral action that would have significantly increased the level of claims against the Associated Employers, action that would have prejudiced the interests of creditors of the Associated Employers generally, and,

As well as maintaining the balance between all creditors, it was felt that this action protected the interests of those employees of the Associated Employers who were members of the Pension Scheme whilst the Administrators progressed toward an exit from Administration and Chapter 11 for the T&N Group. In the event of a wind-up of the Pension Scheme the pension law in force at the time provided that retired members would get paid their benefits first. Also, the deferred members (former employees who have yet to retire) do not make ongoing contributions to the Pension Scheme. This meant that without the action that the Administrators had taken contributions to the Pension Scheme by and on behalf of the employees would have had to be shared with the deferred members and retired members and would have not been solely for the benefit of existing employees.

Following the action of the Administrators discussions continued between the Chapter 11 Plan Proponents (Federal-Mogul, three of the US Official Committees, the Futures Claimant Representative and the Agent for the Pre-Petition Secured Lenders) and the Independent Trustee. Alternative offers to the one contained within the Plan of Reorganization were made by the Plan Proponents but on the 6 December 2004 the alternative offer open at that time was withdrawn. The Plan Proponents also confirmed that they would not continue the Pension Scheme post exit from Administration and Chapter 11.

Negotiations continued and on 26 September 2005, the Company, its ultimate parent, Federal-Mogul Corporation, and the Plan Proponents entered into a Global Settlement Agreement with the Administrators and the Pension Protection Fund. The Agreement should allow Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves that will be used by the Administrators to provide distributions to creditors, one of which is the Pension Scheme.

This agreement is subject to various approvals and determinations by the UK and US Courts before it can be implemented.

It is important to note that the Pension Scheme still remains open. It has not terminated nor is it currently subject to a winding up.

A new defined contribution scheme has been introduced, in the form of a stakeholder plan, with a start up date of 6 April 2005.

In 2001 there are no other significant post-employment benefits.

8. Pensions commitments(continued)

FRS17 Disclosures
T&N Retirement Benefits Scheme(1989)

A full actuarial valuation of the T&N Retirement Benefits Scheme(1989) was carried out at 31 March 2001 and updated to 31 December 2001 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 December 2001 %
Rate of increase in salaries	3.4
Rate of increase of pensions in payment	2.4/3.0
Discount rate	6.0
Inflation assumption	2.4

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 December 2001 %	Value at 31 December 2001 £m
Equities	8.0	487.0
Bonds	5.5	524.0
Property	6.5	68.0
Cash	4.5	4.0
Total market value of assets		1,083.0
Actuarial value of liability		(1,103.0)
Deficit in the scheme		(20.0)
Related deferred tax		6.0
Net FRS17 pension liability		(14.0)

	31 December 2001 £m
Net liabilities	(208.2)
Less SSAP24 prepayment	(44.3)
Net liabilities excluding FRS17 pension liability	(252.5)
Net FRS17 pension liability	(14.0)
Net liabilities including FRS17 pension liability	(266.5)
Profit & loss reserve	(505.6)
Less SSAP24 prepayment	(44.3)
Profit & loss reserve excluding FRS17 pension liability	(549.9)
Net FRS17 pension liability	(14.0)
Profit & loss reserve including FRS17 pension liability	(563.9)

The expected long-term rates of return and liability assumptions have been estimated based on available information as at 31 December 2001. Based on available information at the date of approval of these financial statements, the expected long-term rates of return are expected to reduce and the associated FRS17 liability is expected to increase.

9. Directors emoluments

	2001 £000	2000 £000
Executive directors' remuneration	-	313
Highest paid director	-	176

No Directors (2000: 2) were members of the Company's defined benefit pension scheme.

10. Tangible fixed assets

Cost or valuation	Land and buildings £m	Plant and machinery £m	Total £m
At 1 January 2001	50.2	279.4	329.6
Additions	-	20.9	20.9
Transfers to Group companies	-	(19.0)	(19.0)
Reclassification	(1.3)	4.1	2.8
Disposals	(4.0)	(23.8)	(27.8)
Disposals of businesses	(1.2)	(5.9)	(7.1)
At 31 December 2001	43.7	255.7	299.4

Depreciation	Land and buildings £m	Plant and machinery £m	Total £m
At 1 January 2001	10.9	185.3	196.2
Transfers to Group companies	-	(14.6)	(14.6)
Reclassification	-	2.2	2.2
Disposals	(0.8)	(17.8)	(18.6)
Disposals of businesses	(0.3)	(4.6)	(4.9)
Adjustment to prior year impairment	-	(4.3)	(4.3)
Charge for the year	1.1	15.5	16.6
At 31 December 2001	10.9	161.7	172.6
Net book value			
At 31 December 2001	32.8	94.0	126.8
At 31 December 2000	39.3	94.1	133.4

Included in the cost of fixed assets are plant and machinery in the course of construction of £19.3m (2000 £16.3m). Assets in the course of construction are not depreciated.

Net book value of land and buildings	2001 £m	2000 £m
Freehold land - not depreciated	9.9	12.7
Freehold buildings	22.7	26.3
Short leasehold	0.2	0.3
	32.8	39.3

Capitalised leases included in plant and machinery	2001 £m	2000 £m
Cost	1.7	7.4
Depreciation	(1.7)	(7.3)
Net book value	-	0.1

Net book value of tangible fixed assets based on historic cost	Land and buildings £m	Plant and machinery £m	Total £m
Cost (or ascribed value)	30.2	255.7	285.9
Depreciation	(8.4)	(161.7)	(170.1)
Net book value based on historic cost			
At 31 December 2001	21.8	94.0	115.8
At 31 December 2000	26.4	94.1	120.5

Notes to the financial statements for the year ended 31 December 2001(continued)

11. Fixed asset investments

	Subsidiary undertakings shares £m	Subsidiary undertakings loans £m	Associated undertakings shares £m	Other shares £m	Total £m
Cost or valuation					
At 1 January 2001	619.0	127.1	0.5	0.2	746.8
Currency translation	-	(12.7)	-	-	(12.7)
Acquisitions and additions	-	462.2	-	-	462.2
Disposals and repayments	-	(1.7)	-	(0.1)	(1.8)
At 31 December 2001	619.0	574.9	0.5	0.1	1,194.5
Provisions					
At 1 January 2001	(78.6)	(3.0)	(0.5)	-	(82.1)
(Increase)/Release in year	-	(1.9)	0.2	-	(1.7)
At 31 December 2001	(78.6)	(4.9)	(0.3)	-	(83.8)
Net book value					
At 31 December 2001	540.4	570.0	0.2	0.1	1,110.7
At 31 December 2000	540.4	124.1	-	0.2	664.7

On 24 September 2001, the Company acquired loans receivable from Federal-Mogul SA, Federal-Mogul Deutschland GmbH and Federal-Mogul SpA with a face value of £453.3m from T&N International Limited and AE International Limited, Federal-Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and filing under Chapter 11 of the US Bankruptcy Code. Under the terms of the sale and purchase agreement the purchase price is to be determined by a third party expert based on an arms' length market price. The purchase price is to be left outstanding on interest-bearing loans. The loans, and any unpaid interest, are secured by a floating charge over the loans acquired. All these loans are Euro denominated.

At the time of approval of these financial statements the valuation on which the purchase price is to be based is not yet available. For the purposes of these financial statements it has been assumed that the purchase price is equal to the face value of the loans.

Under the terms of the sale and purchase agreement, pending determination of the purchase price, for the purposes of the calculation of interest payable by the company to T&N International Limited and AE International Limited, the purchase price is assumed to be 50% of the face value. This figure has been used in accruing interest payable in these financial statements.

The Company's principal subsidiaries, associated undertakings and trade investments are listed in note 24.

12. Stocks	**2001 £m**	**2000 £m**
Raw materials and consumables	3.3	6.1
Work in progress	5.8	5.3
Finished goods	22.0	25.1
	31.1	36.5

13. Debtors

Debtors falling due within one year	2001 £m	2000 £m
Trade	30.3	32.6
Amounts owed by fellow subsidiaries	88.3	28.6
Amounts owed in respect of disposals of operations	0.7	0.4
Prepayments and accrued income	1.6	1.4
Other	10.3	11.6
	131.2	74.6
Debtors falling due after more than one year		
Amounts owed by fellow subsidiaries	16.6	-
Amounts owed in respect of disposals of operations	3.4	0.8
Prepaid pension costs (Note 8)	44.3	60.9
Asbestos insurance recoverable (Note 22)	215.1	228.2
	279.4	289.9
Total debtors	410.6	364.5

14. Creditors – Amounts falling due within one year	2001 £m	2000 Restated £m
Bank borrowings (Note 16)	-	65.3
Trade	26.1	22.7
Amounts owed to fellow subsidiaries*	67.7	41.4
Payroll and other taxes, including social security	15.4	5.1
Taxation - United Kingdom corporation tax	0.2	8.8
Settled asbestos claims (Note 22)	-	33.0
Accruals and deferred income and other creditors	28.8	21.4
Grants not yet credited to profit	1.1	0.5
	139.3	198.2

* includes £1.7m (2000: £nil) that is secured by a floating charge over the loans to Federal-Mogul SA, Federal-Mogul Deutschland GmbH and Federal-Mogul SpA that were purchased by T&N Limited from T&N International Limited and AE International Limited.

15. Creditors – Amounts falling due after more than one year	2001 £m	2000 £m
Amounts owed to fellow subsidiaries*	1,046.1	419.0
	1,046.1	419.0

* includes £462.0m (2000: £nil) that is secured by a floating charge over the loans to Federal-Mogul SA, Federal-Mogul Deutschland GmbH and Federal-Mogul SpA that were purchased by T&N Limited from T&N International Limited and AE International Limited.

16. Bank borrowings	2001 £m	2000 £m
Total due within one year not by instalments	-	65.3
Analysis of total borrowings		
Bank overdrafts secured on assets of fellow subsidiaries	-	44.5
Unsecured bank overdrafts and loans	-	20.8
	-	65.3

17. Provisions for liabilities and charges	Asbestos Related £m	Deferred Tax £m	Other provisions £m	Total £m
At 1 January 2001	699.9	-	1.2	701.1
Movements in year	-	112.1	-	112.1
Payments	(73.2)	-	(0.7)	(73.9)
At 31 December 2001	626.7	112.1	0.5	739.3

Other provisions relate to the costs of environmental cleaning. See note 21 for further information in respect of deferred tax.

18. Called up share capital

Ordinary shares of 40p each	Authorised No. of shares	Authorised £m	Issued and fully paid No. of shares	Issued and fully paid £m
At 1 January 2001	725,000,000	290.0	555,358,973	222.2
At 31 December 2001	725,000,000	290.0	555,358,973	222.2

19. Reserves	Share premium account £m	Special reserve £m	Profit and loss account £m
At 1 January 2001 as previously stated	11.0	64.2	(407.6)
Prior year adjustments (as explained in note 20)	-	-	(2.3)
At 1 January 2001 as restated	11.0	64.2	(409.9)
Loss attributable to shareholders'	-	-	(95.7)
At 31 December 2001	11.0	64.2	(505.6)

The special reserve was established in 1997 on a reduction in capital and is not distributable.

20. Prior year adjustment

Interest

A loan agreement between the Company and Federal-Mogul Global Growth Limited, its parent company, states that a variable interest rate, reset on a quarterly basis, should be charged. The interest calculation for 2000 was incorrectly calculated using the 1999 rate.

This error has resulted in an adjustment to increase interest payable and amounts owed to fellow subsidiaries in 2000 by £2.3m, of this amount £2.2m impacted the 2000 profit and loss account. The tax impact of the prior year adjustments is nil.

21. Deferred taxation

	Asbestos related Costs £m	Other timing differences £m	Deferred capital gains £m	Total £m
Deferred tax provided				
At 1 January 2001	(42.3)	42.3	-	-
Movements in the year	21.1	(21.1)	112.1	112.1
At 31 December 2001	(21.2)	21.2	112.1	112.1

	2001 £m	2000 £m
Unprovided liabilities / (assets)		
Asbestos-related costs	(102.3)	(99.2)
Losses	(55.0)	(30.0)
	(157.3)	(129.2)

21. Deferred taxation(continued)

In 1998, 1999 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 third party. The loan notes have a term of 30 years from issue. During 2001 the loan notes were transferred to the Company which thereafter assumes any capital gains tax liabilities that crystallise on redemption or sale of the loan notes.

The capital gains that may crystallise on redemption or sale of the loan notes were estimated at the end of 2001 to be £373.6m which, using the current tax rate of 30% would result in capital gains tax liabilities of £112.1m. Taxation has been provided in full on the basis that the liability may crystallise in the foreseeable future.

No provision has been made for tax which would become payable on the amount by which assets have been revalued where there is no intention at the balance sheet date to dispose of these assets.

Advance corporation tax of £39.4m (2000: £54.4m), none of which is recognised in the accounts, is available to carry forward against future UK tax liabilities.

22. Commitments and contingent liabilities

	2001 £m	2000 £m
Future capital expenditure - contracts placed	1.5	15.0
Operating leases - payment commitments for 2001		
On leases of land and buildings expiring:		
- within one year	-	0.3
- between two and five years	0.1	0.9
- in more than five years	0.7	0.9
	0.8	2.1
On leases of plant and machinery expiring:		
- within one year	0.2	0.3
- between two and five years	1.2	1.7
	1.4	2.0

Contingent liabilities also exist in respect of cross-guarantees given by the Company and its UK subsidiaries to support some of the Group's UK bank borrowings amounting to £nil (2000: £3.1m).

Asbestos-related litigation

Background

The Company and two of its fellow subsidiaries of Federal-Mogul Corporation (the "T&N Companies") are amongst many defendants named in a large number of court actions, both in the United States and, in respect of the Company, the United Kingdom, alleging personal injury resulting from exposure to asbestos or asbestos-containing products. The Company is also subject to property damage litigation in the United States based upon asbestos products allegedly installed in buildings.

In 1996, the Company purchased, for the T&N Companies, £500m of insurance ("the ARD insurance cover") to cover personal injury claims relating to asbestos, which will be triggered in the event that the aggregate cost of claims filed after 30 June 1996, where the exposure occurred prior to that date, exceed £690m.

During 2000, the Company carried out an assessment of the likely cost of claims on the basis of the claims then pending against the Company and those which were reasonably estimated to be asserted and paid in the period to 2012. This estimate was based upon an econometric study carried out by an independent firm, NERA, specialists in the assessment of mass tort liability, and was based upon a number of assumptions as to total number of claims, the typical cost of settlement (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, the settlement strategy in dealing with outstanding claims and the timing of settlements. A cash profile of claims was projected and then discounted at a rate of 2%.

22. Commitments and contingent liabilities(continued)

Asbestos-related litigation(continued)

Background(continued)

On the basis of the NERA assessment, the Company concluded that the aggregate cost of claims filed after 30 June 1996 would exceed £690m and that, based on a review of the insurance policy and advice from outside counsel, it was probable that the T&N Companies would be entitled to receive payment from the reinsurers for the cost of claims in excess of the trigger point of the insurance. Based on this assessment, the Company recorded a provision of £732.9m as at 31 December 2000 and a related insurance recoverable asset under the T&N policy of £228.2m.

Impact of the Chapter 11 and UK Administration Filings

As explained in note 1 to the accounts, on 1 October 2001, 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.

As a result of the Administration, all pending asbestos-related litigation against the Company in the United States and the United Kingdom was stayed (subject to certain exceptions in the case of governmental authorities), subject to specific authorisation of the Bankruptcy Court or the High Court and no payments have been made with respect to asbestos-related claims. An Asbestos Creditors' Committee has been appointed in the United States to represent claimants with pending claims against the Company, and the Bankruptcy Court has appointed a separate legal representative for the interests of potential future claimants. In the United Kingdom, a Creditors Committee consisting in large part of representatives of asbestos claimants has been appointed. The Company's obligations with respect to present and future claims will be determined through litigation in the Bankruptcy Court, the High Court, and/or through negotiations with each of the official committees appointed. This determination will provide a basis for a plan of reorganisation (the latest principles of which are currently set out in a draft Global Settlement Agreement ("GSA")). It is intended that the GSA, when finalised, will have the effect of fixing the amount of claims payable to all asbestos related disease claimants, irrespective of jurisdiction, at a specified amount.

In the period before finalisation of the GSA, however, the Company considers that there is considerable uncertainty in estimating the future asbestos liabilities and related insurance recovery as any plan will deal with a number of factors which necessarily impact the ultimate liability including, but not limited to, the number of claims that will be filed in the Administration and covered by the GSA; how claims for punitive damages and claims by persons with no current physical impairment will be treated; and the impact, if any, that historical settlement values may have . In the circumstances, it is the Company's view that the liability as previously assessed by NERA represents the best estimate available of the liability and so they consider it appropriate to base the provision on this.

There can be no assurance, therefore, that the Company will not be subject to material additional liabilities in excess of the amounts currently recorded by the Company and the related recoverable may also need to be increased. Furthermore, in the event that any liability exceeds the amount recorded or the remaining insurance cover, the Company's financial condition may be materially affected.

Recoverability of amounts from Insurers – issues impacting certainty

In December 2001, one of the three reinsurers, who each had a third share of the policy, associated with the provision of the ARD insurance cover, European International Reinsurance Company Limited (EIR), filed suit in the High Court to challenge the validity of its reinsurance contract with the Company. As a result of this lawsuit a claim was also made against the broker, Sedgwick, that assisted in procuring this policy for breach of its duties as a broker. Under the terms of a settlement reached by the parties, it was agreed that EIR would be liable for 65.5% of its one-third share of the reinsurance policy with Sedgwick liable for 17.25% of the EIR share of the reinsurance policy. The Company would effectively bear the remaining 17.25% of any reinsurance value (effected by way of an indemnity to Curzon International Limited ("Curzon"), the original insurer). The settlement is set out in three agreements and their efficacy is conditional on approval by the Bankruptcy Court and the Administrators. As a result of this settlement the Company has recorded a reduction in the insurance recoverable in 2001 of £13.1m. A motion seeking the Bankruptcy Court's approval was filed on 1 March 2004.

22. Commitments and contingent liabilities(continued)

Asbestos-related litigation(continued)

Recoverability of amounts from Insurers – issues impacting certainty(continued)

Subsequent to this motion, the other two reinsurers, Centre Re and Munich Re, notified the Company of their belief that the settlements with EIR and Sedgwick may breach one or more provisions of the reinsurance agreement. The hearing to review the 1 March 2004 motion was adjourned without date as the parties attempted to resolve the issues raised by the two reinsurers. However, these efforts were unsuccessful, prompting the Administrators to file an action in the High Court seeking a declaration that the settlements with EIR and Sedgwick did not breach provisions of the reinsurance agreement. In addition, the High Court gave a direction that Curzon should make a similar application to run in tandem with the Administrators' application. A hearing was conducted during July 2005 and judgement was handed down on 21 December 2005. The Court held that the settlements did not breach the reinsurance agreement. Centre Re and Munich Re have not appealed the judgement.

During the first quarter of 2004, the security rating of Centre Re was downgraded by several major credit rating providers. Accordingly, the Company obtained a guarantee of all Centre Re's obligations under the policy from Centre Reinsurance (US) Limited ("CRUS"), an affiliate of Centre Re. The security rating of CRUS has not been affected by the downgrade of Centre Re and remains unchanged since the inception of the policy.

The Company has reviewed the financial viability and legal obligations of the three reinsurance companies involved and has concluded that there is little risk that the reinsurers will not be able to meet their obligations under the policy based on their financial condition. If the reinsurers and/or the related affiliate are not able to meet their obligations under the policy, the Company's results of operations and financial condition could be materially affected.

Accounting Implications

As of 31 December 2001, the Company had provided for £626.7m (2000 £699.9m) in respect of future costs related to resolving asbestos claims and £nil (2000 £33.0m) in accruals for settled claims and costs not yet paid. In addition, the Company continues to recognise an insurance recoverable asset of £215.1m (2000 £228.2m). During 2001, up to the point of Administration on 1 October 2001, payments were deducted from the provision on a consistent basis with the prior year. Amounts totalling £106.2m were made of which some £33.0m were made to settle short-term claims and costs.

Both the provision and the insurance asset recoverable were accounted for on a discounted basis in accordance with FRS12. Nevertheless, no adjustment has been made in the year ended 31 December 2001 in relation to the unwinding of one year's discount in view of the significant uncertainties surrounding the assessment of the position given the matters set out above

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The provision also includes a reserve for anticipated expenditures in relation to the property claim referred to above.

The amount included in the accounts as at 31 December 2001 may be analysed as follows;

Asset	**£ m**	**Liability**	**£ m**
At 1 January 2001	228.2	At 1 January 2001	(732.9)
Charge to profit and loss account	(13.1)	Payments	106.2
At 31 December 2001	215.1	At 31 December 2001	(626.7)

23. Post balance sheet events

On 9 December 2005, the Company entered into an agreement with the Administrators, Federal-Mogul Corporation and Federal-Mogul (Continental European Operations) Limited, both fellow group undertakings, to sell the French, German and Italian loan notes. The French loan notes were sold to Federal-Mogul Corporation, and the German and Italian notes to Federal-Mogul (Continental European Operations) Limited. The total consideration was £207.5m compared to an unaudited book value in the management accounts of the Company as at 30 December 2005 of £534.5m giving rise to a loss of £326.8m.

24. Principal subsidiary and associated undertakings and trade investments at 31 December 2001

Holding Companies	
T&N Holdings Ltd +	UK
T&N Investments Ltd	UK
Powertrain	
Federal-Mogul Bradford Ltd	UK
Federal-Mogul Bridgwater Ltd	UK
AE India Pistons Precision Products Ltd (50%)#	India
Federal-Mogul Sapanca Segman (50%)#	Turkey
Federal-Mogul Izmit (42.5%)#	Turkey
Dongsuh Industrial Company Ltd (50%)#	South Korea
Anqing TP Goetze Piston Ring Company Ltd (35.7%)#	China
Friction Products	
Federal-Mogul Friction Products Ltd	UK
Federal-Mogul Eurofriction Ltd	UK
Federal-Mogul Friction Products a.s. +	Czech Republic
Federal-Mogul Friction Products SA	Spain
Federal-Mogul Materials de Friccao	Brazil
Japan Brake Industrial Company Ltd (12.2%)*	Japan
Korea Beral Ltd (22.9%)*	South Korea
Federal-Mogul Friction Products Company (70%)	China
Federal-Mogul Friction Products (Thailand) Ltd (91%)	Thailand
Engine Parts Aftermarket	
Federal-Mogul Aftermarket UK Ltd	UK
Sealing Products	
Federal-Mogul Sealing Systems (Rochdale) Ltd	UK
Federal-Mogul Sealing Systems (Slough) Ltd	UK
Federal-Mogul Sealing Systems Company (83%)	China
Talbros Automotive Components Ltd (30%) # +	India
Camshafts	
Federal-Mogul Camshaft Castings Ltd	UK
Federal-Mogul Camshafts Ltd	UK
Powder Metal Products	
Federal-Mogul Sintered Products Ltd	UK
Systems Protection	
Federal-Mogul Systems Protection Group Ltd	UK
Federal-Mogul Systems Protection Group KK	Japan

Associated undertakings
* Trade investments
+ Held directly by T&N Limited

24. Principal subsidiary and associated undertakings and trade investments at 31 December 2001(continued)

Apart from T&N Holdings Limited and T&N Investments Limited, the UK companies are constituted as branches of T&N Limited.

Unless otherwise shown, investments in overseas companies are held by subsidiaries of T&N Holdings Limited. The companies are incorporated and operate principally in the countries indicated. Equity investments are wholly owned, unless otherwise shown, and consist of ordinary shares.

25. Corporate information

Head Office and Registered Office
Manchester International Office Centre
Styal Road
Manchester
M22 5TN

Company registration number: 163992

Ultimate parent company

The Company's immediate parent company is Federal-Mogul Global Growth Limited, a company registered in England and Wales. The ultimate parent company and controlling party is Federal-Mogul Corporation registered in the USA. Accounts of this company may be obtained from Federal-Mogul Investor Relations, 26555 Northwestern Highway, Southfield, MI 48034, USA.