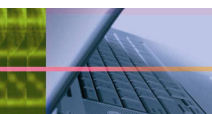


The T&N UK Asbestos Trust and The T&N EL Trust

Trustee's Annual Report 2009



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Please note that capitalised terms bear the meanings given to them in the Trust Distribution Procedures, the Company Voluntary Arrangement and The EL Scheme documents.

1. Introduction

1.1 Executive Summary

The purpose of this report is to provide an update to the key stakeholders of the T&N UK Asbestos Trust and T&N EL Trust (the Trusts). The T&N UK Asbestos Trust consists of a number of funds. The primary funds are the T&N Fund and the Chester Street Fund. Under the Terms of the Trust deed these funds must remain separate and cannot be co-mingled.

This report is the third annual report issued by the Trustee.

This report includes detail in relation to operational, financial and legal matters which have been of relevance to the Trusts throughout the period. This report should be read in conjunction with the Trustee's previous reports.

The Trustee has delayed issuing this report because of the uncertainties surrounding the tax position of the Trusts and consequent significant effect on future dividend levels. These uncertainties have now been clarified by the Chancellor of the Exchequer in his Emergency Budget Statement on 22 June 2010 and are discussed in detail in section 8.

The main highlights of the report are as follows:-

- i. During the year the Trusts received 200 claims and paid out in respect of 267 claims (including 74 "Cape type" claims received in the previous year). Payments to Claimants totalled £4.68m.
- ii. As a result of intensive lobbying the government legislated to exempt the Trusts from the onerous recoupment provisions of the Child Maintenance and Other Payments Act 2008 ("CMOP"). They also agreed an extra-statutory concession to make the effect of the exemption retrospective. Thus no T&N Claimants should be impacted by the adverse consequences of the CMOP.
- iii. The Trustee has been pleased with the performance of its investment managers. Their investment strategy has generated a profit of £11.37m, representing a return of approximately 13%. This has meant that the Trusts have recouped all of the investment losses incurred in 2008.
- iv. During 2009, the tax status of the Trusts was clarified, but unfortunately in an unfavourable way. Her Majesty's Revenue and Customs (HMRC) indicated that the Trusts were liable for Inheritance, Capital Gains and Income Tax. The Trustee estimated that the total tax cost to the Trusts would be £26m equating to a reduction in dividends to Claimants of approximately 20%. The then Labour government was sympathetic to the resulting plight of Claimants and in the March 2010 Budget Statement announced its intention to bring forward legislation to exempt the Trusts from all tax. Whilst this was a clear commitment from the previous government, it was not necessarily binding on the new government. As a result we continued to lobby the new coalition government. Our lobbying campaign was successful and in the recent Emergency Budget Statement the Chancellor of the Exchequer announced the government's intention to bring forward the necessary legislation in the next parliamentary session. We anticipate that the legislation will become effective by the end of the year.
- v. In view of the claims experience to date and the successful resolution of the tax status of the Trusts, the Trustee believes that it is now appropriate to increase the dividends paid by the Trusts. The new dividend levels for the major Funds are set out overleaf:

p/£	Current			Future		
	Initial	Additional	Total	Initial	Additional	Total
T&N Asbestos Fund	17	3	20	27	5	32
EL Trust	61	15	76	100	0	100
Chester Street	21	3	24	30	5	35

The increase in dividends will become effective for all payments made from 12 October 2010. In order to protect the position of Claimants, the Trustee has suspended all payments for three months from 12 July 2010 to 11 October 2010. The detailed implementation arrangements for the increased dividends are shown at section 3.3

1.2 The Trustee

The Trustee is 'The T&N Asbestos Trustee Company Limited' being a limited company, number 05548874, registered in England and Wales.

The directors of the Trustee are James John Gleave, Anne Clare O'Keefe and Christopher Melton QC. James Gleave and Anne O'Keefe are Chartered Accountants of Zolfo Cooper LLP. Christopher Melton QC is a barrister at Byrom Street Chambers.

1.3 Core Objective

The Core Objective of the Trusts is broadly to allow Trust Claimants to receive a payment (or payments) from the appropriate Fund or Funds which:

- Reflects the value of their underlying claim;
- Is fair and proportionate, having regard to the interests of other Trust Claimants with similar Trust Claims claiming out of the same Fund or Funds;
- Is calculated and paid in an efficient and cost effective manner, following an efficient and cost effective assessment of the Trust Claim.

2. T&N Fund/EL Fund Claims

This section relates to claims against the above two funds and excludes Chester Street claims, which are shown in section 6.

2.1 Claims Analysis

The claims submitted to the Trusts in the first three years of operation can be summarised overleaf:

Status	As at 11.10.08	As at 11.10.09	
Paid	441	708	
Awaiting further information from Claimant	136	85	
Pending issue of Admission Notice	0	9	
Subject to Expert review process	0	2	
“Cape Type” Claims	102	1	Note A
Withdrawn	24	46	
Rejected	70	122	Note B
Total	773	973	

Note A - The claims shown as at 11.10.08 have been almost entirely resolved leaving only one claim to be dealt with.

Note B - The claims rejected during the year include 26 “Cape type” claims, primarily due to a failure to satisfy medical criteria.

2.2 Payments to Fund Claimants

During the year a total of £5.19m has been paid out in respect of claims against the Trusts. The total during the first three years is £18.29m and can be summarised as follows:

£m	At 11.10.08	Paid during year	At 11.10.09	% of total
Payments to Claimants	12.13	4.68	16.81	91.9
Trust Claimants Legal Fees	0.83	0.42	1.25	6.8
Trust Claimants Medical Costs	0.12	0.08	0.20	1.1
Other	0.02	0.01	0.03	0.2
Total	13.10	5.19	18.29	100.0

2.3 Disease Analysis

The claims paid by the Funds during the first three years of operations can be analysed between diseases as follows:

Disease	% Total Claims (by number)	Average Payment
Mesothelioma	47%	£42,500
Lung Cancer	13%	£43,100
Asbestosis	26%	£11,900
Pleural Thickening	14%	£9,600
Total	100%	

2.4 Claims subject to the Expert Review Process

In the last year two claims have been referred to the Expert. A summary of the reasons for referral and the results of Expert's review are as follows:

Reason for Referral	No of claims	Expert Outcome
Contribution Share Dispute	1	Reduced Trust's share
Medical criteria not satisfied	1	Overtured Trustee's rejection of claim
Total	2	

In total, during the first three years of the Trusts, 14 claims have been referred to the Expert.

2.5 Rejected Claims

52 claims have been rejected through the year making a total of 122 over the first three years of operations. All rejected claims are reviewed and discussed in detail at a meeting of the Trustee's directors. This meeting includes the independent third director.

A detailed explanation of the reason why a claim has been rejected is provided to the Trust Claimant at the time of rejection. Claims have been rejected for a number of reasons with the main reasons being shown overleaf:

Reasons for Rejection	As at 11.10.08	Activity During Year	As at 11.10.09
Failure to satisfy medical criteria	12	26	38
No response to requests for further information	16	8	24
Failure to satisfy exposure criteria	12	10	22
Trust Claimant had already been compensated in full	11	4	15
Exposure to asbestos was prior to 1965 and did not fall within the Margereson/Hancock judgment	7	2	9
Limitation grounds	5	1	6
Lung cancer not meeting Helsinki criteria	4	1	5
Other	3	0	3
Total	70	52	122

The significant increase in claims rejected because of failure to satisfy medical criteria is almost entirely due to "Cape Type" claims.

With respect to limitation issues, the Trustee believes that it should take a sympathetic view, very much in line with the approach a Court would adopt, except where there are clear legal principles that would make the discretion to waive limitation inappropriate. In practice most of the claims rejected on limitation grounds relate to contribution claims from other defendants.

2.6 "Cape Type" Claims

"Cape Type" claims are defined within the Trust Distribution Procedures (TDP) and are essentially those claims originating from Swaziland, Zimbabwe, Botswana, South Africa and India. At the start of the year the Trust had received 102 claims, all from southern African countries. With one exception these claims have now been settled, with all Claimants opting for the expedited review process. Based on the advice of David Allan QC and in accordance with the TDP, all successful claims have been subject to a discount of 50% to reflect the significant litigation risks associated with claims of this nature

In total approximately £191,000 was paid to these Claimants. Legal and medical costs associated with these claims totalled £71,000. The Trustee does not anticipate any further claims from southern African countries. In recent months we have been in discussion with a barrister acting for a number of Claimants based in India. We have suggested these claims be assessed under the expedited review process, provided that the Claimants are prepared to accept a discount of 50% to reflect litigation risks. We have recently received a number of claims and anticipate that further claims from India will be received during the next year.

2.7 Product Liability Claims

During the past year the T&N UK Asbestos Trust experienced a significant increase in product liability claims. This trend has continued into the early months of 2010. Whilst claims of this nature are subject to a 30% discount they are beginning to absorb a significant proportion of the T&N Trust Funds (they are not relevant to the EL Trust). Prior to the administration of T&N, the Group paid few, if any, of these types of claims. We understand that this is the current position of many other asbestos defendants. However the Trustee takes the view that whilst there may be some evidentiary difficulties in pursuing product liability claims, it believes that provided the appropriate level of evidence is produced, there is no reason in principle why these types of claims should not be paid.

The Trustee will be monitoring the volume of product liability claims closely during the next twelve months. The potential impact on future dividend levels is discussed more fully in section 3.2.

3. Dividend Policy

3.1 Current Dividend Levels

The table below shows the dividend levels currently being paid to Trust Claimants from the UK Asbestos Trust and The EL Trust together with the Trustee's original estimate of the additional payment. The additional payment is scheduled to be made five years after the date of the initial payment. These payment levels have remained unchanged since the inception of the Trust (except for the Hercules Fund).

Dividends (p / £)			
Fund	Initial	Expected Additional	Total
EL Fund	61	15	76
T&N Fund	17	3	20
Chester Street Fund	21	3	24
TBA Industrial Products Fund	30	4	34
FM Friction Products Fund	100	0	100
Hercules Fund	0	Uncertain	Uncertain

3.2 Future Dividend Levels

In the light of the Trust's claims experience since inception, the Trustee commissioned a full actuarial review, based on the three years claims experience. We have now received the results of the actuarial review. Based on this review we believe it is appropriate to significantly increase the dividend levels on all Funds (with the exception of Hercules). The table below shows the new rates of dividend:

Dividends (p in the £)			
Fund	Initial	Additional	Total
EL Fund	100	0	100
T&N Fund	27	5	32
Chester Street Fund	30	5	35
TBA Industrial Products	40	5	45
Federal-Mogul Friction Products	100	0	100
Hercules Fund	0	0	0

Note - The Trustees now believe it is most unlikely that any funds will be received in respect of the Hercules Policy in the foreseeable future. Further details are in section 7.

The new dividend levels represent an increase of over 60% for the T&N Fund and will become effective from 12 October 2010. The detailed implementation arrangements are shown at section 3.3 below.

We would add a note of caution in respect of product liability claims. In recent months we have experienced a significant increase in these types of claims. Unfortunately this increase is over too short a period to enable any reasonable forecast of future claim trends. In the preparation of the forecasts our actuaries have assumed further modest increases in claims. The forecasts are sensitive to the rate of increase and it is feasible that if the incidence of product liability claims increase at a rate greater than the Trustee has estimated, the dividend may need to be reduced.

3.3 Implementation Arrangements

In order to protect the position of Claimants and to enable the appropriate changes to be made to the Trusts' software and database the Trustee has concluded in accordance with the TDP that it is necessary to suspend payments for a three month period. However the Trustee would emphasise that Claimants should still continue to submit claims during this period. This will enable the Trusts to make payments to them as soon as the three month period is concluded. The Trustee has agreed the following implementation schedule, shown overleaf, with the Committee:

Formal suspension of payments	12 July 2010
Issue of determination notices for all claims submitted prior to 20 August 2010	12 September 2010
New dividend levels become effective	12 October 2010
Payment of all determination notices issued on 12 September 2010	12 October 2010

Attached at Appendix C is a worked example illustrating how the change in dividends will work in practice and providing a comparison of a claim made under the old dividend levels and a claim made under the new dividend levels.

Claimants who have already received a first dividend will receive an enhanced payment when they receive their additional dividend. Thus they will receive exactly the same total dividend payment irrespective of the date of their claim.

4. Trust Fund Investments

4.1 Investment Strategy

The Trustee remains of the view that it should adopt a prudent investment policy whilst remaining conscious of the long-term nature of the Trust Funds. In practical terms, this equates to the Trustee adopting an investment approach similar to pension fund trustees.

In the light of the tax advice received, (see section 8) the Trustee believes that it was necessary to ensure that no funds were held offshore. The vast majority of the funds were held in Blackrock Management Investment Unit Trust, all of which were held offshore. Accordingly these investments were realised and then re-invested into a UK based fund. Based on advice received from the Trustee investment adviser (Mercer), the Trustee concluded that the most appropriate investment vehicle was the Blackrock Cautious Portfolio Fund.

This fund does not have a targeted rate of return but rather concentrates on an investment profile with moderate levels of risk.

4.2 Funds Held at Year End

At the year end the Trustee held the following investments shown below:

Investment	Amount (£m)	% of total
Blackrock Cautious Portfolio Fund	103.69	99
Bank Deposit Accounts	1.37	1
Total	105.06	100

4.3 Investment Performance - Year to 11 October 2009

The investment performance of the Trusts' funds with Blackrock can be summarised as follows:

£m	Valuation 12/10/08	Additions from CVAs	Withdrawals	Investment return	Valuation 11/10/09
T&N Fund	27.39	20.00	(0.30)	4.85	51.94
Chester Street Fund	20.52	0.00	(0.90)	2.86	22.48
EL Fund	27.40	0.00	(1.80)	3.67	29.27
Total	75.30	20.00	3.00	11.38	103.69

Note - The T&N Fund includes amounts relating to FM Friction Products (£2.5m) and TBA Industrial Products (£2.5m).

In common with most of the financial markets the Trust investments have seen a good recovery in the period. The recovery effectively commenced in April 2009 and since then the market value of the investments has generally continued to improve.

4.4 Cumulative Performance

The investment return of the Funds since the inception of the Trusts can be summarised as follows (including interest received):

£m	Year to 11 October 2007	Year to 11 October 2008	Year to 11 October 2009	Total Return
T&N Fund	1.15	(2.76)	4.85	3.24
Chester Street Fund	0.77	(2.05)	2.86	1.58
EL Trust	1.15	(2.76)	3.67	2.06
Total	3.07	(7.57)	11.38	6.88

As can be seen from the table above the losses incurred during 2008 have now been entirely reversed and the overall gains in the three years to October 2009 are approximately £7m.

The investment has returned 2.2% in the period from 12 October 2009 to 15 June 2010.

We would add a note of caution. Our investment advisors are concerned about the fragile nature of the markets and emphasise that, in the short term, there is a significant risk of increased levels of volatility. However the investment strategy underlying the Blackrock Cautious Portfolio Fund should protect the Funds' value from extreme variations. In times of extreme volatility the Blackrock Cautious Portfolio Fund will adopt a more defensive strategy.

5. Further Contributions to the Trusts

5.1 Surplus from Federal Mogul Company Voluntary Arrangements ("FMCVAs")

During 2009 the vast majority of the FMCVAs were brought to a conclusion. One of the terms of these CVAs was that any funds that were surplus to the contractual requirements of the CVAs should be distributed to those group creditors who suffered a shortfall. The largest of these creditors was the T&N Asbestos Trust and this Trust has now received a further sum of £15.26m.

The final outstanding issue on the FMCVAs relates to the appropriate tax treatment for interest earned on CVA funds. This is a complex issue and is taking considerable time to resolve. The Supervisors have agreed to transfer a further sum to the T&N Asbestos Trust. The Trustee's current view is that a proportion of this sum will be required to discharge the CVA tax liabilities but that an element will ultimately be retained for the benefit of the Trust.

5.2 Funding of Subsidiary Company Claims

One of the terms of the CVAs was that on closure of the FMCVAs the T&N Asbestos Trust would take over the complete responsibility for claims against subsidiary companies. This primarily relates to FM Friction Products and TBA Industrial Products. Sufficient funds were transferred from the FMCVAs to enable the Trust to meet these obligations. The amounts transferred can be summarised as follows:

	£m
FM Friction Products	2.87
TBA Industrial Products	2.83
Other subsidiaries	0.20
Total	<u>5.90</u>

The Trustee is obliged to keep these funds separate from the remainder of the Trust funds and they can only be used to discharge claims against the relevant subsidiary.

6. Chester Street Fund

The Chester Street Fund is part of the T&N UK Asbestos Trust but must be kept separate from the other Funds. The purpose of the Fund is to provide compensation to Chester Street (an insolvent insurer) and related parties. This fund provides a contribution towards claims made against T&N and Federal-Mogul companies, as a joint tortfeasor, by Chester Street.

During the year, the first payments out of this fund were made. These payments fell into two categories:

- i. We reached agreement with the Chester Street administrators over claims relating to all periods prior to Chester Street's insolvency (December 2000). The gross value of the claims was £6.97m. The Chester Street Fund had agreed to meet 39% of this liability and therefore the claims against the Chester Street Fund were agreed at £2.72m. The Chester Street administrators received a dividend of 21p/£ equating to a payment of £0.57m.
- ii. We have now begun receiving claims in respect of the post-insolvency period for Chester Street and £0.61m has been paid out in respect of this second category of claims. The claims history to the period end can be summarised as follows:

Paid/Established	95
Awaiting further information	73
Rejected	44
Total	<hr/> 212 <hr/>

The main reason for rejecting claims has been a failure to satisfy the presumptive exposure criteria.

7. Hercules

The T&N UK Asbestos Trust is entitled to 11.9% of any recovery under the Hercules Reinsurance Policy with the US Asbestos Trust entitled to the remainder. The Policy has a face value of £500m although it is likely that any settlement will be significantly less than the face value of the Policy.

Under the terms of the Trust Deed, the US Asbestos Trust has the primary responsibility for pursuing recoveries under the Policy. The US Trustees have entered into a dialogue with the re-insurers but, to date, have made little progress. We maintain contact with the US Trustees and they provide regular updates on their strategy. However, it is clear that this issue is protracted and the quantum of any settlement impossible to predict. It is now evident that no settlement is likely to be realised within the first five years of the Trusts. We had initially anticipated that any realisation from Hercules would be distributed together with the final payment to Claimants (i.e. five years after agreement of the claim).

We now believe that it is likely that any settlement from the Hercules Policy will be received in one sum and only at that point will we be able to distribute the proceeds. All Claimants, irrespective of the date of their claim, will be entitled to a pro-rata share of the proceeds.

8. Tax

8.1 Tax Status

We have spent considerable time during the past twelve months clarifying the tax status of the Trusts. We have worked closely with our tax advisers, Ernst and Young and have met regularly with both HMRC and the Treasury. These discussions reached a conclusion, albeit that the position was not satisfactory from the perspective of the Claimants.

As would be expected the tax arguments are complex but the principles are relatively straightforward.

Firstly, the Charity Commissioner's indicated that it did not consider the Trusts to be charities, primarily because the Trustee has no real discretion over whether they pay Claimants. As a result we were not able to obtain the exemption from all taxes enjoyed by charities. Based on the legal advice received, we had to agree with this view.

HMRC believes that the Trusts are discretionary in nature (contrary to the Charity Commissioner's view) and as a consequence fall into a mass of anti-avoidance legislation including becoming liable to Inheritance Tax. Our view is that this type of tax legislation is primarily aimed at high net worth individuals who utilise discretionary Trusts as a tax avoidance mechanism to shield their assets from HMRC. We believed that it was common ground between HMRC and ourselves that these legislative measures were never aimed at trusts such as the T&N UK Asbestos Trust, nevertheless HMRC still asserted that they were applicable.

In brief the Trusts were liable for all of the following:

- a) Income tax at the highest rate (50% from April 2010) on all Trust income.
- b) Capital Gains tax at the highest rate (initially 18% but currently 28%).
- c) An Inheritance Tax charge at 6% of the asset value in the Trust on the 10th anniversary of the Trust and every 10th anniversary thereafter.
- d) An Inheritance Tax exit charge on all payments made from the Trust.

Effectively, the Claimants are bearing the cost of paying Income, Capital Gains and Inheritance tax as if they were high net worth individuals to whom the legislation was aimed at.

We were very disappointed with the approach of HMRC but our professional advice was that we did not have sufficient grounds to appeal against their position. We also researched and discussed with HMRC whether it is possible for HMRC to grant an extra-statutory concession to exempt the Trusts from all taxes. Our advice was that it is not within the powers of HMRC to grant such an extra-statutory concession. Reluctantly, we were forced to conclude that we had to accept HMRC's position on the tax status of the Trusts.

To illustrate the significance of the tax charge we asked our actuaries to prepare two models, one assuming tax is payable and the second assuming that the Trusts are entirely exempt from tax. The conclusions of this exercise are set out overleaf:

a) During the life of the Trusts the tax charge is estimated as follows (undiscounted):

	£m
Capital and Income Taxes	17
Inheritance Tax	9
Total Tax Charge	<u>26</u>

b) Assuming no tax is payable the dividend to Claimants would increase by approximately 20%.

HMRC also raised an additional issue. It believed that the Claimants themselves might be liable to Capital Gains Tax merely as a consequence of the approval of the FMCVAs. It has not finally concluded on this point but our advice is that this is a logical extension of its other arguments. We have pointed out to HMRC the appalling consequences to Claimants if they pursue this line of argument as well as the impossible practical difficulties. Our research indicates that this is an area of tax law where relief could possibly be granted by an extra-statutory concession. We would hope that even if this assertion is pursued by HMRC they would consider using their power, under an extra-statutory concession, to disapply this charge.

8.2 Legislative Solution

In view of the position of HMRC we implemented a new strategy such that we began a lobbying campaign to try to persuade the government to enact a change in the law. We approached Stephen Timms, the then Financial Secretary to the Treasury and also sought assistance from UNITE and John McFall MP, the then Chairman of the Treasury Select Committee. The Financial Secretary to the Treasury asked a group of his officials at the Treasury and HMRC to assess the feasibility of exempting the Trusts from all taxation. He emphasised that this action should not be taken as any guarantee that he had concluded that a change of law was appropriate. We worked closely with the Treasury/HMRC on this project and provided a considerable amount of information as well as an assessment of the financial cost of such an exemption. What became clear is that any such change could only be granted via a provision in a Finance Bill and as such would have to be included as part of the government's budgetary process.

In the period up to the general election the pressures on government time and resources were considerable and clearly they had to prioritise various issues. However we were impressed with the seriousness with which the Treasury approached our concerns and willingness to try to find a solution. These discussions culminated in a statement contained within the 2010 Budget. The government announced its intention, early in the next parliament, to enact legislation exempting the Trusts from all taxes. A copy of the statement is attached at Appendix D.

This was clearly excellent news, although we would add that such a statement was not necessarily binding on any new government.

After the general election we approached the coalition government to ascertain whether they were able to meet the commitment given by the previous government. In spite of the mood of austerity surrounding the new government the Treasury appeared to be supportive, although they did request some further information from us. The Treasury re-affirmed that any such exemption could only be granted in accordance with the government's budgetary process. On 22 June 2011, as part of the Emergency Budget, the Chancellor of the Exchequer announced his intention to exempt the Trusts from all taxation. The government indicated that the necessary legislation would be enacted in the autumn of 2010 (paragraph 2.154 of the Emergency Budget Statement). A copy of the relevant paragraph from the statement is attached at Appendix E.

8.3 Tax Consequences for Investment Strategy

One consequence of our discussions with HMRC was that we had to re-examine our investment strategy. Our advisors identified the possibility that HMRC could invoke certain anti-avoidance provisions such that capital gains arising from off-shore investments could be taxed as if they were income. The effect would be to increase the rate of tax from 18% to 40% (rising to 50% from April 2010). In view of this risk we concluded that it would be prudent to ensure that all of our investments are UK based. The down side of this action is that our investment flexibility is constrained but we believe that this is an acceptable trade-off. Accordingly we have realised all of our off-shore assets, crystallising a capital gain of £3.70m. These funds have then been reinvested in UK based investment funds.

In view of the recent confirmation of the change in the tax status of the Trusts we will now reconsider our investment strategy.

8.4 Certificates of Tax Deposit

During our discussions with HMRC we agreed that it would not be appropriate to pay any tax in connection with the income or capital gains earned by the Trusts. However in order to protect the Trusts position against potential claims for interest and penalties and to preserve our relationship with HMRC, the Trustee has agreed to purchase Certificates of Tax Deposits for our estimate of the tax that might be payable. The deposits of tax purchased are set out below:

Certificates of Tax Deposits £m	At 11.10.09	Purchased Subsequently	Currently Held
T&N Fund	0.59	0.06	0.65
Chester Street Fund	0.39	0.07	0.46
The EL Fund	0.48	0.15	0.63
Total	1.46	0.28	1.74

The certificates purchased subsequently to the year-end relate to potential income and capital gains tax incurred during the year.

In the light of the government's recent announcement we will be now be able to redeem these certificates and return the funds to the Trusts.

9. Legislative Changes

9.1 Child Maintenance and Other Payments Act 2008 ("CMOP")

In October 2008 the government enacted the CMOP. The CMOP was intended to assist mesothelioma victims by making it possible to claim an early payment from the Department of Work and Pensions (DWP). Essentially the CMOP contains similar provisions to the Pneumoconiosis etc. (Workers' Compensation) Act 1979 (PWCA) but applies to any UK resident individual and not just occupationally exposed, former employees of companies which have gone out of business.

However, one clause within the CMOP enables the DWP to reclaim payments made to asbestos victims under the CMOP or the PWCA from damages paid to the victim.

The inclusion of the PWCA within these provisions was extraordinarily onerous for T&N Asbestos victims and is a significant change from previous legislation. Prior to the passing of the CMOP many Claimants were entitled to receive a payment under the PWCA and make a full claim against the Trust. The Act obliged the Trustee to deduct the PWCA payment from the Claimant's entitlement.

Once the CMOP came into effect it very quickly became apparent that the effects on Claimants were significant. On average, relevant Claimants were having approximately £9,000 deducted from their damages. For Claimants who do not have the benefit of EL insurance (the majority of Claimants) this averaged 50% of their entitlement. Between October 2008 and December 2008 the Trustee was obliged to deduct in excess of £250,000 from Claimants' damages. This equated to 17.4% of the total due to Claimants for this period.

With the assistance of UNITE and Terry Rooney MP, the Chairman of the Parliamentary Select Committee on Work and Pensions, the Trustee lobbied the Department of Work and Pensions. The Trustee was eventually able to persuade the Secretary of State for Work and Pensions to exempt the Trusts from the recoupment provisions of the CMOP.

This exemption for the Trusts was enshrined in Statutory Instrument 2009 No 1494 - "the Social Security (Recovery of Benefit) Lump Sum Payments (Amendment) Regulations 2009". The Statutory Instrument became effective on 13 July 2009.

The DWP has subsequently confirmed that, by way of an extra statutory concession, it will treat the exemption as if it was effective from the date the CMOP came into force. The DWP has indicated that it will contact Claimants/Claimants' solicitors directly to ensure that any Claimant who suffered a deduction from their dividend, because of the CMOP, will receive a refund. The Trustee has verified with a number of Claimants' solicitors that this procedure has been implemented.

9.2 Pleural Plaques

Most Claimants will be aware that, as a consequence of recent cases, pleural plaques are no longer a compensatable disease in England and Wales. However, this has caused a degree of consternation within the Claimant community and there has been political pressure on government to provide some redress to sufferers of pleural plaques. In Scotland legislation has been passed making the disease compensatable. However this legislation has been challenged by a group of insurers and as a consequence all claims for compensation for pleural plaques are currently stayed pending resolution of the challenge. In England and Wales the government has announced that it will provide some compensation but only to a very limited number of Claimants. The position of the vast majority of English and Welsh based Claimants' remains uncertain.

The extent to which pleural plaques regain their status as a compensatable disease has a material impact on the dividend prospects for all of the other asbestos Claimants. We believe from an English and Welsh perspective that there is little prospect of pleural plaques becoming compensatable. As a consequence we have made no provision in the actuarial forecasts for pleural plaques claims. In the event this assumption is proved incorrect the forecasts are likely to require amendment.

10. TDP Changes

During the period, the Trustee has made a small number of amendments to the TDP to reflect ongoing advice and the changing legal environment. All changes are agreed at a meeting of the Trustee Directors and then a full consultation process is conducted with members of the Trust Advisory Committees (TAC). These changes have now been incorporated into the TDP.

Detailed documents (The 2009 Amending Deed), formalising the changes, are attached at Appendix A.

An overview of the changes made and the rationale for these changes is detailed in the attached letter to the members of the TAC (Appendix B).

11. Professional Costs

11.1 T&N Fund

The majority of professional costs incurred in relation to the ongoing administration of this Trust including a significant proportion of the Trustee's fees, are currently paid from a dedicated fund set aside for this purpose. This fund does not form part of the Trust's assets and fees drawn from this fund do not impact on the overall return to Trust Claimants. Payments in this respect can be drawn at the Trustee's discretion without any further approval. As a consequence the T&N Fund only incurred costs of £35,000 during the last year.

11.2 The T&N EL Trust

The T&N EL Trust contained provisions for the allocation of costs specifically related to the operation of this fund. The total costs incurred by this Fund during the year were £285,000. This equates to 11.8% of the amounts distributed from this Fund. Included within these costs is the sum of £216,000 paid to Zolfo Cooper in relation to the Trustee's costs and disbursements and those of the claims agreement team.

We will liaise with the EL Trust TAC in relation to obtaining approvals for the drawing of these amounts.

11.3 The Chester Street Fund

As with the EL Trust, the Chester Street Fund contains provisions for the allocation of costs specifically related to the operation of this Fund. The total costs incurred by this Fund during the year were £206,000. Included within these costs is the sum of £132,000 paid to Zolfo Cooper in relation to the Trustee's costs and disbursements and those of the claims agreement team.

12. Trust Funds Accounts

Attached at Appendix F and G are copies of the Trust accounts for the period to 11 October 2009.

13. Contact Details

The Trustee has recently completed an update of the Trusts' website and the address is shown below in addition to our other contact details:

The T&N Asbestos Trustee Company Limited
Suite 11b
Manchester International Office Centre
Styal Road
Manchester
M22 5WB

Telephone: 0161 838 4559
Fax: 0161 493 9488
Website: www.tandnasbestostrust.org
Email: acrichton@zolfocooper.eu

Should you wish to discuss any aspect of this report or obtain further copies, please do not hesitate to contact us.

Appendices

- | | |
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| Appendix B | Letter to the Trust Advisory Committees |
| Appendix C | Worked example illustrating effect of change in dividend levels |
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APPENDIX A

The 2009 Amending Deed

Part 1: The UK Asbestos Trust

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2009 Amending Deed

This Deed is made on the _____ day of _____ 2010 by The T&N Asbestos Trustee Company Limited ("the Trustees"), registered in England with company number 05548874, whose registered office is at 10 Fleet Place, London, EC4M 7RB.

Recitals

- A The Trustees were appointed as the Trustees of this Trust by the terms of the Trust Deed dated 10 October 2006.
- B The Trust Deed established the Trust to compensate persons holding Trust Claims in respect of T&N or any of the Companies alleging (a) Asbestos Exposure, and (b) that T&N or any of the Companies is liable in respect of Asbestos Disease caused by that exposure.
- C Clause 19.1 of the Trust Deed provides that amendments may be made to the TDP (among other things) subject to ensuring that the Core Objective stated in Clause 1.3 of the TDP is maintained.
- D The Trustees consider that it is in the best interests of the beneficiaries of the Trust to make certain amendments to the TDP in furtherance of the Core Objective, set out further below.

Now this Deed witnesses as follows:

1 Definitions and Interpretation

- 1.1 This Deed shall be referred to as the "2009 Amending Deed".
- 1.2 In the case of inconsistency between this 2009 Amending Deed and the TDP, this 2009 Amending Deed shall prevail.
- 1.3 In this 2009 Amending Deed, unless the context otherwise requires or expressly provides:
 - (a) defined terms shall bear the meanings given in the Definitions and Interpretation Schedule;
 - (b) the interpretation provisions set out in the Definitions and Interpretation Schedule shall apply to the interpretation of this 2009 Amending Deed;
 - (c) references to the "2007 Amending Deed" and the "2008 Amending Deed" refer to the deeds entered into by the Trustees on 1 May 2008 and 21 May 2009 respectively, which made certain amendments to the TDP.

2 Amendments

- 2.1 The amendments to the TDP set out in this 2009 Amending Deed shall have effect.
- 2.2 For ease of reference these amendments are shown in the version of the TDP comprising the substantive provisions (but not Schedule 4) attached to this 2009 Amending Deed as Appendix 1, with new text shown as underlined and deleted text shown as struck through. In addition, to avoid confusion with amendments made to the TDP by the 2007 Amending Deed and the 2008 Amending Deed, the amendments made by this 2009 Amending Deed are shown in red.

3 Individual Review – Valuation of Established Claims

- 3.1 Clause 2.6.7 shall be amended to make clear that the Schedule 3 Maximum Value figures for Individual Review are the maximum values, rather than the only values, at which the Trustees may value Established Claims under Individual Review. The amended Clause 2.6.7 shall read as follows (with new text shown as double underlined and deleted text shown as double struck through):

2.6.7 In all other cases, where the Trustees determine that a Trust Claim should be admitted as an Established Claim under the Individual Review Process, they shall calculate the value of the Established Claim as follows:

- (a) In Disease Level I and II cases, the value of the Established Claim shall be set at such amount as the Trustees shall determine but not exceeding the Maximum Value for the relevant Disease Level set out in table 1 of Schedule 3.
- (b) In Disease Level II cases, where the Trust Claimant was a smoker the Trustees may, if they consider it appropriate, apply a discount of up to 20% to the value that otherwise would have been fixed for Established Claims, to reflect contributory negligence.
- (c) In Disease Level III and IV cases, the Trustees shall first consider the severity of the Asbestos Disease in respect of which the Trust Claim is made by reference to the Disability Rating Scale set out in Schedule 2. They shall set the value of the Established Claim at such amount as they shall determine, but not exceeding the Maximum Value for mild, moderate or severe cases of the Asbestos Disease in table 1 of Schedule 3. If it appears to the Trustees that the Asbestos Disease is attributable to any material extent to Asbestos Exposure caused by the activities of any party other than T&N or the relevant Company, the Trustees shall apply the Apportionment Formula to the value of the

Established Claim. If there is no sufficient evidence of material Asbestos Exposure by any other party, the Apportionment Formula shall not be applied.

- (d) In Disease Level V cases, the value of the Established Claim shall be set at such amount as the Trustees shall determine but not exceeding the Maximum Value for Disease Level V set out in table 1 of Schedule 3. If it appears to the Trustees that the Asbestos Disease is attributable to any material extent to Asbestos Exposure by any party other than T&N or the relevant Company, the Trustees shall apply the Apportionment Formula to the value of the Established Claim. If there is no sufficient evidence of material Asbestos Exposure by any other party, the Apportionment Formula shall not be applied.
- (e) In cases where the Injured Person is deceased, the Trustees shall determine the value of the Established Claim at an amount which shall not exceed the Maximum Value for the relevant Disease Level set out in tables 2 and 3 of Schedule 3.
- (f) In all cases, if a Trust Claimant has received a payment from or on behalf of any other party in respect of his Asbestos Disease, he must disclose the amount of the payment to the Trustees. The Trustees may take the whole or part of the payment into account when valuing the Established Claim, if they consider it appropriate to do so.

3.2 New clauses 2.6.7A and 2.6.7B shall be inserted after clause 2.6.7 to make clear that:

- (a) claimants are not entitled to be compensated for the chance that they may in the future develop a disease or suffer a deterioration in their condition, if
- (b) they would at that future date be entitled to lodge a subsequent Proof of Claim with the Trustees in respect of the disease or deterioration.

The new clauses shall read as follows:

2.6.7A In determining the value of Established Claims under clause 2.6.7 above, the Trustees shall assume that the Injured Person will not develop any disease or suffer any deterioration in his condition that would entitle the Trust Claimant to make a subsequent claim under clause 2.8 below. The Trustees shall only consider any such disease or deterioration if and when they receive a further Proof of Claim pursuant to clause 2.8 below.

2.6.7B The Trustees may, however, take into account evidence of a chance that at some definite or indefinite time in the future the Injured Person will, as a result of the act or omission which gave rise to the Trust Claim, develop a disease or suffer a deterioration in his condition that would not entitle the Trust Claimant to make a subsequent claim under clause 2.8 below. For example (without limitation) this means that the Trustees may take into account the risk of the Injured Person's percentage disability from Disease Levels III or IV worsening.

4 Schedule 1 – Presumptive Medical and Exposure Criteria

4.1 The first row of Schedule 1 shall be amended to make clear that mesothelioma claimants must demonstrate material Asbestos Exposure, in accordance with the requirement in the first row of Schedule 1 to the EL TDP. The amended first row of Schedule 1 shall read as follows (with new text shown as double underlined and deleted text shown as double struck through):

<u>Disease Level</u>	<u>Presumptive Medical and Exposure Criteria</u>
i. Mesothelioma	<p>(1) Diagnosis by an accredited respiratory specialist¹ or for Trust Claims in respect of deceased Injured Persons assessed by Expedited Review, a medical certificate issued by the appropriate authority for the relevant jurisdiction certifying the cause of death as mesothelioma.</p> <p>(2) As to employees: Credible evidence of material Asbestos Exposure in the course of employment by T&N or any relevant Company and such Asbestos Exposure commencing at least 10 years before first diagnosis.</p> <p>(3) In other cases: Credible evidence of material Asbestos Exposure caused by the activities of T&N or any relevant company and such Asbestos Exposure commencing at least 10 years before first diagnosis.</p>

¹ All references to an accredited respiratory specialist include a retired Consultant in respiratory medicine.

5 Governing Law and disputes

5.1 This 2009 Amending Deed is governed by and shall be interpreted in accordance with the laws of England and Wales.

5.2 Any disputes arising out of or in connection with this 2009 Amending Deed shall be subject to the exclusive jurisdiction of the High Court of Justice of England and Wales.

Executed as a deed and delivered on the date appearing at the beginning of this Deed.

Executed as a deed by the
T&N Asbestos Trustee Company Limited
acting by two directors

.....

DIRECTOR
NAME: James Gleave

.....

DIRECTOR
NAME: Anne O'Keefe

APPENDIX A

The 2009 Amending Deed

Part 2: EL Schemes

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EL 2009 Amending Deed

This Deed is made on the _____ day of _____ 2010 by The T&N Asbestos Trustee Company Limited ("the Trustees"), registered in England with company number 05548874, whose registered office is at 10 Fleet Place, London, EC4M 7RB.

Recitals

- A The Trustees were appointed as the Trustees of this Trust by the terms of the Trust Deed dated 23 November 2006.
- B The Trust was set up to enable Established Claims of EL Claimants to be established, ascertained and paid from the Trust Fund in accordance with and subject to the provisions of the EL Schemes, the Trust Deed and the TDP.
- C The Trustees consider that it is in the best interests of the beneficiaries of the Trust to make certain amendments to the TDP in furtherance of the Core Objective and these amendments are set out further below.
- D The Trust Committee has considered the proposed amendments in accordance with Clause 2.13.1 of the TDP.

Now this Deed witnesses as follows:

1 Definitions and Interpretation

- 1.1 This Deed shall be referred to as the "EL 2009 Amending Deed".
- 1.2 In the case of inconsistency between this EL 2009 Amending Deed and the TDP, this EL 2009 Amending Deed shall prevail.
- 1.3 In this EL 2009 Amending Deed, unless the context otherwise requires or expressly provides:
- (a) defined terms shall bear the meanings given in the Definitions and Interpretation Schedule;
 - (b) the interpretation provisions set out in the Definitions and Interpretation Schedule shall apply to the interpretation of this EL 2009 Amending Deed;
 - (c) references to the "EL 2007 Amending Deed" and the "EL 2008 Amending Deed" refer to the deeds entered into by the Trustees on 1 May 2008 and 21 May 2009 respectively, which made certain amendments to the TDP.

2 Amendments

- 2.1 The amendments to the TDP set out in this EL 2009 Amending Deed shall have effect.
- 2.2 For ease of reference these amendments are shown in the version of the TDP comprising the substantive provisions attached to this EL 2009 Amending Deed as Appendix 1, with new text shown as underlined and deleted text shown as struck through. In addition, to avoid confusion with amendments made to the TDP by the EL 2007 Amending Deed and the EL 2008 Amending Deed, the amendments made by this EL 2009 Amending Deed are shown in red.

3 Individual Review – Valuation of Established Claims

- 3.1 Clause 2.6.4 shall be amended to make clear that the Schedule 3 Maximum Value figures for Individual Review are the maximum values, rather than the only values, at which the Trustees may value Established Claims under Individual Review. The amended Clause 2.6.4 shall read as follows (with new text shown as double underlined and deleted text shown as double struck through):

2.6.4 Where the Trustees determine that a claim should be admitted as an Established Claim under the Individual Review Process, they shall calculate the value of the Established Claim as follows:

- (a) In Disease Levels I and II, the value of the Established Claim shall be set at such amount as the Trustees shall determine but not exceeding the Maximum Value for the relevant Disease Level set out in table 1 of Schedule 3.
- (b) In Disease Level II cases, where the claimant was a smoker the Trustees may, if they consider it appropriate, apply a discount of up to 20% to the value that otherwise would have been fixed for Established Claims, to reflect contributory negligence.
- (c) in Disease Levels III and IV cases, the Trustees shall first consider the severity of the Asbestos Disease in respect of which the Trust Claim is made by reference to the Disability Rating Scale set out in Schedule 2. They shall set the value of the Established Claim at such amount as they shall determine, but not exceeding the Maximum Value for mild, moderate or severe cases of the Asbestos Disease in table 1 of Schedule 3. If it appears to the Trustees that the Asbestos Disease is attributable to any material extent to Asbestos Exposure caused by the activities of any party other than a Scheme Company, the Trustees shall apply the Apportionment Formula to the value of the Established

Claim. If there is no sufficient evidence of material Asbestos Exposure by any other party, the Apportionment Formula shall not be applied;

- (d) In Disease Level V cases, the value of the Established Claim shall be set at such amount as the Trustees shall determine but not exceeding the Maximum Value for the relevant Disease Level set out in table 1 of Schedule 3. If it appears to the Trustees that the Asbestos Disease is attributable to any material extent to Asbestos Exposure caused by the activities of any party other than a Scheme Company, the Trustees shall apply the Apportionment Formula to the value of the Established Claim. If there is no sufficient evidence of material Asbestos Exposure by any other party, the Apportionment Formula shall not be applied;
- (e) In cases where the Injured Person is deceased, the Trustees shall determine the value of the claim at an amount which shall not exceed the Maximum Value for the relevant Disease Level set out in tables 2 and 3 of Schedule 3;
- (f) in all cases, if an EL Claimant has received a payment from or on behalf of any other party in respect of his Asbestos Disease, he must disclose the amount of the payment to the Trustees. The Trustees may take the whole or part of the payment into account when valuing the Established Claim, if they consider it appropriate to do so.

3.2 New clauses 2.6.4A and 2.6.4B shall be inserted after clause 2.6.4 to make clear that:

- (a) claimants are not entitled to be compensated for the chance that they may in the future develop a disease or suffer a deterioration in their condition, if
- (b) they would at that future date be entitled to lodge a subsequent Proof of Claim with the Trustees in respect of the disease or deterioration.

The new clauses shall read as follows:

2.6.4A In determining the value of Established Claims under clause 2.6.4 above, the Trustees shall assume that the Injured Person will not develop any disease or suffer any deterioration in his condition that would entitle the claimant to make a subsequent claim under clause 2.8 below. The Trustees shall only consider any such disease or deterioration if and when they receive a further Proof of Claim pursuant to clause 2.8 below.

2.6.4B The Trustees may, however, take into account evidence of a chance that at some definite or indefinite time in the future the Injured

Person will, as a result of the act or omission which gave rise to the claim, develop a disease or suffer a deterioration in his condition that would not entitle the claimant to make a subsequent claim under clause 2.8 below. For example (without limitation) this means that the Trustees may take into account the risk of the Injured Person's percentage disability from Disease Levels III or IV worsening.

4 Governing Law and disputes

4.1 This EL 2009 Amending Deed is governed by and shall be interpreted in accordance with the laws of England and Wales.

4.2 Any disputes arising out of or in connection with this EL 2009 Amending Deed shall be subject to the exclusive jurisdiction of the High Court of Justice of England and Wales.

Executed as a deed and delivered on the date appearing at the beginning of this Deed.

Executed as a deed by the
T&N Asbestos Trustee Company Limited
acting by two directors

.....

DIRECTOR
NAME : James Gleave

.....

DIRECTOR
NAME : Anne O'Keefe

APPENDIX B

Letter to the Trust Advisory Committees

THE T&N ASBESTOS TRUSTEE COMPANY LIMITED

Suite 11b
Manchester International Office Centre
Styal Road
Manchester M22 5WB
0161 838 4559
Fax: 0161 493 9488

To Members of the Trust Committee of the UK Asbestos Trust

Dear Member

The T&N UK Asbestos Trust/EL Trust --- CONSULTATION ON AMENDMENTS TO THE TDP

You will recall from previous years that the Trustees are required to consult with the Trust Advisory Committees whenever they wish to amend the terms of the TDP. Attached to this letter are copies of the proposed amending deeds (one for each Trust). The rationale for the two changes proposed is as follows:

1 **Clause 2.6.4(c) – valuation of Disease Level III and IV claims on Individual Review**

- 1.1 The TDP states that, when the Trustees value Disease Level III and IV claims on Individual Review, "They shall calculate the value of the Established Claim by applying the Maximum Value for mild, moderate or severe cases of the Asbestos Disease set out in Schedule 3." It has been asserted that this means the Trustees must always value such claims at the Maximum Value and, as a result, the Trustees have no discretion to look at the claims more closely and determine an appropriate value for the claims.
- 1.2 The Trustees do not consider this interpretation to be correct. If it were correct, it would destroy the central purpose of Individual Review, which is to provide a system under which claims can be valued more accurately on their facts than they would be under the Expedited Review procedure. It would also mean that claimants' solicitors would always put Disease Level III and IV claims through Individual Review as the Maximum Values are, naturally, higher than the Expedited Review values.
- 1.3 To remove any scope for argument on this point, the Trustees propose to delete the words quoted above from clause 2.6.4(c) and replace them with the words: "They shall set the value of the Established Claim at such amount as they shall determine, but not exceeding the Maximum Value for mild, moderate or severe cases of the Asbestos Disease in table 1 of Schedule 3." This tracks the words used elsewhere in clause 2.6.4.

2 **Clauses 2.6.4A and 2.6.4B – provisional damages vs final payment**

- 2.1 In a recent opinion, the Expert made the following statement:

"In the circumstances it is not, on this occasion, necessary for me to determine the issue as to whether a claim for "once-and-for-all" damages is permitted by the TDP, a construction of the document disputed by the Trustees. I should however

THE T&N ASBESTOS TRUSTEE COMPANY LIMITED

point out that the TDP is by no means clear on the point. For example, Clause 2.6.2 enjoins the Trustees to consider a claim by reference to the UK Common Law and statutory provisions, and these would prima facie allow for the traditional "once-and-for-all" claims, which, of course, pre-date the statutory claims for Provisional Damages. Such a construction may well, for example, be inconsistent with the provisions of Clause 2.8.1 which envisages, by necessary implication, a previous claim for Provisional Damages. It may be that the Trustees would prefer to consider an amendment to the TDP clarifying the issue rather than await a future determination by me on the true construction of the document. They will no doubt take into account that the TDP as now drafted has apparently not been entirely clear to the very experienced solicitors for the Claimant."

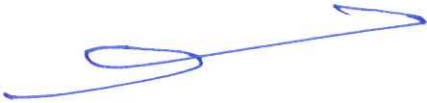
- 2.2 The Trustees do not consider that the system for assessing and paying claims under the TDP is intended to replicate the tort system exactly. The Core Objective provides that claimants should be paid amounts which "reflect the value of the underlying EL Claim assigned to the Trust by the EL Claimant." The Core Objective also provides, however, that the value of the claims should be "calculated in an efficient and cost-effective manner following an efficient and cost-effective review of the EL Claim." If the TDP were to try too closely to simulate the tort system, the processing of claims would become inefficient and would result in a disproportionate amount of the trust funds being spent on administration costs. The Trustees consider that claimants must claim under the procedure set out in the TDP and all claims will be treated the same way, with no option to elect for "provisional damages" or "once and for all damages", as such.
- 2.3 Nevertheless, the Trustees agree with the Expert that it would be useful to clarify the issue. The purpose of the draft new clauses 2.6.4A and 2.6.4B is to explain the way in which section 32A of the Senior Courts Act 1981 (orders for provisional damages for personal injuries) is reflected in the TDP system for processing claims. In short, in determining the value of a claim on Individual Review:
- (a) the Trustees cannot take account of any risk that the claimant might develop a disease or suffer a deterioration in his condition that would entitle him to make a subsequent claim under clause 2.8; but
 - (b) the Trustees can take account of any risk that the claimant might develop a disease or suffer a deterioration in his condition that would not entitle him to make a subsequent claim under clause 2.8.
- 2.4 This ensures that claimants are neither overpaid nor underpaid for future claims for which they could make a subsequent claim under clause 2.8: the Trustees will determine the actual value of the subsequent claim as and when it arises. It also ensures that the Trustees are able to compensate claimants for the risk of developing a disease or suffering a deterioration in their condition which would not entitle them to make a subsequent claim under clause 2.8.

THE T&N ASBESTOS TRUSTEE COMPANY LIMITED

3 The 2009 Amending Deed

- 3.1 Please provide any comments on these issues to us in the course of the next two weeks. If we do not hear from you during this time, we will assume that you have no comments and would be happy for the 2009 Amending Deed to enter into force. This accords with the approach that we adopted the amendments contained in the 2007 and 2008 Amending Deeds.
- 3.2 Please let us know if you have any specific comments or questions or would like any further explanation of the changes that we propose to make.

Yours faithfully



James Gleave

Chairman

APPENDIX C

Worked example illustrating effect of changing dividend levels

APPENDIX C

Worked example illustrating effect of change in dividend levels

The following schedule is an example of how the change in dividend level will work in practice. For the purposes of this example we have assumed a Claimant with a claim only against the T&N Fund.

Dividend Level	Current	New
Initial	17p	27p
Final	3p	5p
Total	20p	32p

Date of increase - 12 October 2010

Assume an agreed claim at £100,000 against the T&N Fund.

i. Claim paid prior to 12 July 2010

Payment	Calculation	Claim value
Initial	$17p \times £100,000$	£17,000
Additional	$32p-17p \times £100,000$	£15,000
Total		£32,000

ii. Claim paid post 12 October 2010

Payment	Calculation	Claim value
Initial	$27p \times £100,000$	£27,000
Additional	$32p-27p \times £100,000$	£5,000
Total		£32,000

APPENDIX D

HMRC Statement - Tax changes for certain Trusts compensating asbestos victims

TAX CHANGES FOR CERTAIN TRUSTS COMPENSATING ASBESTOS VICTIMS

Who is likely to be affected?

1. Trustees of certain trusts that have been specifically set up as part of an arrangement made by a company with its creditors to pay compensation to asbestos victims.

General description of the measure

2. This measure will exempt trustees of certain trusts from capital gains tax (CGT), inheritance tax (IHT) and income tax. The trusts that will benefit are those set up on or before 23 March 2010 as part of an arrangement made by a company with its creditors and specifically to pay compensation to, or in respect of, individuals with asbestos related conditions.
3. The Government intends to legislate this measure in a Finance Bill to be introduced as soon as possible in the next Parliament.

Operative date

4. This measure will have effect on and after 6 April 2006.

Current law and proposed revisions

5. Trustees are subject to IHT charges every 10 years on the value of property held in trust above the IHT nil rate band (currently £325,000) and also on certain payments made out of the trust. Trustees are also liable to income tax on income arising to the trust, and CGT on disposals of certain trust assets.
6. This measure provides for exemptions from the IHT, CGT and income tax charges on the trustees of certain trusts that have been set up as part of an arrangement made by a company with its creditors. For the exemptions to apply the trust must also be specifically for the purpose of paying compensation to, or in respect of, individuals with asbestos related conditions. This will apply to trusts set up on or before 23 March 2010.

Further advice

7. If you have any questions about this change, please contact Angela Walker on 020 7147 2773 (email: angela.walker1@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

APPENDIX E

Emergency Budget Statement 22 June 2010 paragraph 2.154, Tax treatment of certain asbestos trusts

Savings and assets **2.151** From 2011-12 the Individual Savings Account (ISA) subscription limits will be indexed. (March 2010 Budget) (m)

2.152 Changes will be made to pensions tax legislation in the Finance Bill introduced in the autumn to enable the National Employment Savings Trust (NEST) to register as a pension scheme for tax purposes. Further legislation will be introduced in Finance Bill 2011 to remove tax charges on late contributions following auto-enrolment and to amend the tax rules on unauthorised borrowing by registered pension schemes. (March 2010 Budget)

Trusts **2.153** From 6 April 2010, where a settlor is liable to income tax on trust income at a lower rate of tax than that paid by the trustees, the settlor must pay this refund back to the trustees. These repayments will be disregarded for inheritance tax purposes. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget)

2.154 Legislation will be in the Finance Bill introduced in the autumn, which will apply retrospectively to 6 April 2006, to help trusts specifically set up to compensate asbestos victims, but which have been unable to access tax efficient structures for the benefit of victims. (March 2010 Budget)

Debt cap **2.155** Legislation will be in the Finance Bill introduced in the autumn to make changes to the worldwide debt cap. (March 2010 Budget)

UK-REITs **2.156** Changes will be made in the Finance Bill introduced in the autumn to allow UK-REITs to issue optional stock dividends as part of their property income distribution requirement. (March 2010 Budget)

Film tax credit **2.157** Legislation will be in the Finance Bill introduced in the autumn to correct an unintended anomaly affecting the amount of tax credit claimable where films are produced over more than one accounting period. Legislation will be effective for accounting periods ending on or after 9 December 2009. (2009 Pre-Budget Report)

Growth Capital Fund **2.158** The Government confirms that it will proceed with the establishment of a Growth Capital Fund to provide growth capital in the £2-10 million range to fast-growing SMEs currently not served by the market. (2009 Pre-Budget Report)

VAT measures **2.159** From 31 January 2011, VAT will be applied at the standard rate to certain postal services provided by the Universal Service Provider (Royal Mail), restricting the exemption to those services which Royal Mail is obliged to provide. The zero rating for passenger transport services will also be updated to reflect the status of the provider of a passenger transport service made in conjunction with postal services. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget)

2.160 The scope of the zero rate for aircraft will be amended in the Finance Bill introduced in the autumn, from one based on the aircraft's weight and usage to one based on the status of the customer, with the zero rate applying to aircraft bought by airlines operating for reward chiefly on international routes. As a minor change from the previous announcement, this will now take place from 1 January 2011. (March 2010 Budget)

APPENDIX F

The T&N UK Asbestos Trust Accounts for the period from 12 October 2008 to 11 October 2009

The UK Asbestos Trust

Report and Financial Statements

for the year ended 11 October 2009

The UK Asbestos Trust

Annual Report and Financial Statements for the year ended 11 October 2009

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The UK Asbestos Trust

**Trustees and advisors
for the year ended 11 October 2009**

Trustee	The T & N Asbestos Trustee Company Limited
Actuary	EMB Consultancy LLP Saddlers Court 64-74 East Street Epsom Surrey KT17 1HB
Investment manager	BlackRock Investment Management (UK) Limited 33 King William Street London EC4R 9AS
Investment advisor	Mercer 1 Whitehall Whitehall Road Leeds LS1 4HR
Auditor	Hurst & Company Accountants LLP Chartered Accountants & Registered Auditors Lancashire Gate 21 Tiviot Dale Stockport Cheshire SK1 1TD
Bankers	Halifax Bank of Scotland Pentland House, 2 nd Floor 8 Lochside Avenue Edinburgh Park South Gyle Edinburgh EH12 9DJ
Solicitors	Denton Wilde Sapte LLP 1 Fleet Place London EC4M 7WS
Administration office	The T & N Asbestos Trustee Company Limited Unit 11b Manchester International Office Centre Styal Road Manchester M22 5WB

The UK Asbestos Trust

Trustees' annual report for the year ended 11 October 2009

The Trustees present their report and financial statements for the year ended 11 October 2009.

Introduction

The Trust was set up on 12 October 2006 and is governed by a Trust Deed signed on 10 October 2006. The Trust includes two funds called the T & N Asbestos Fund and the Chester Street Fund, set up to handle claims for compensation from asbestos related diseases.

The UK Asbestos Trust was established as a consequence of the approval of Company Voluntary Arrangements (CVAs) for a group of 51 UK registered companies, all subsidiaries of Federal Mogul Inc. The purpose of the Trust is to establish a mechanism for paying all current and future asbestos liabilities of this group (excluding claims that originate in the USA). The Trust does not have sufficient funds to meet these liabilities in full and therefore claimants only receive a partial dividend. Almost all of the liabilities relate to the major UK operating company T&N Ltd and a number of its, now dormant, subsidiaries. As a consequence of the approval of the CVAs, current and future asbestos claimants are obliged to pursue the Trust for compensation, they are not able to pursue any of the companies subject to the CVAs. The initial funding for the Trust was £33m for T&N Trust claims and £22m for Chester Street claims.

Recent developments

During the year the Trust received 412 claims (200 against the T&N Fund and 212 against the Chester Street Fund) and processed for payment 362 claims (267 from the T&N Fund and 95 from the Chester Street Fund). In total £5.86m was paid to claimants, with contributions from the T&N EL Trust and other funds totalling £2.1m. In addition on the termination of the Federal-Mogul CVAs the Trust received additional contributions of £23.55 million. They anticipate that the agreement will be finalised in the near future. The Trustee continues to negotiate with HMRC the appropriate tax treatment for income arising in the Trust. This position has not yet been finalised and in order to protect the position of the Trust the Trustee has purchased a number of Certificates of Tax Deposit.

Management of the Trust

The Trustee named on page 1 has served throughout the period.

Under the Trust Deed, Trustees are appointed and removed by the Trustee.

The Trustee is a sole corporate trustee, and it shall have the power to resign as trustee, appoint additional Trustees and appoint a new Trustee in its own place.

The Trustee shall not have the power to resign as trustee until it has appointed a new Trustee to take its place in accordance with Clause 14.2.2.

Trustees meetings may be attended by one or more of its directors or duly authorised officers, employees or agents, and it shall have only one vote on business to be decided at the meeting.

The Trustee delegates many of their day to day responsibilities to a dedicated claims agreement team base in Manchester. However they reserve to themselves all strategic decisions as well as certain specific matters including claims rejection, investment strategy and tax. The Directors of the Trust company meet approximately 10 times during the year. In addition they convene meetings of the Trust Advisory Committee on at least a yearly basis.

The UK Asbestos Trust

Trustees' annual report for the year ended 11 October 2009

Financial development of the Trust

The financial statements of the Trust for the year ended 11 October 2009, as set out on pages 8 to 14 have been prepared and audited in accordance with the Trust Deed dated 10 October 2006. A summary of the Trust's financial statements is set out in the table below:

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Contributions receivable	-	25,678,879	25,678,879	4,969,928
Pre Chester St Insolvency dividend	(571,200)	-	(571,200)	-
Compensation payments	(610,986)	(4,681,981)	(5,292,967)	(7,165,837)
Other claims payments	-	(801,291)	(801,291)	(618,722)
Administrative expenses	(206,310)	(35,313)	(241,623)	(216,079)
	<hr/>	<hr/>	<hr/>	<hr/>
Net (withdrawal)/additions	(1,388,496)	20,160,294	18,771,798	(3,030,710)
Investment income	10,758	29,828	40,586	213,778
Change in market value of investments	2,860,341	4,844,412	7,704,753	(4,812,072)
	<hr/>	<hr/>	<hr/>	<hr/>
Net (losses)/returns on investments	2,871,099	4,874,240	7,745,339	(4,598,294)
Net (decrease)/increase in funds	1,482,603	25,034,534	26,517,137	(7,629,004)
Net assets at start of year	21,566,827	28,470,603	50,037,430	57,666,434
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	23,049,430	53,505,137	76,554,567	50,037,430

The funds statement and net assets statement on pages 8 to 9 show that the value of the trust's assets are £76,554,567 as at 11 October 2009 (2008: £50,037,430).

Further details of the financial developments of the Trust may be found in the audited financial statements on pages 8 to 14.

The decrease in compensation payments from £7.1m last year to £5.3m does depend on claimants and this will vary. Payments from the Chester Street fund commenced in the current year with £1.18 million being paid.

The net gain on investment of £7.7 million was primarily due to the favourable investment climate and the performance of the Trusts investment manager.

The bank interest under investment income has decreased from £214k to £41k mainly because of the lower average level of funds held in bank accounts during the year.

The UK Asbestos Trust

Trustees' annual report for the year ended 11 October 2009

Actuarial review

The financial statements set out on pages 8 to 14 do not take into account the liabilities to provide claim payments which fall due after the year end. In respect of these liabilities, these are considered by the Trust actuary who carries out an actuarial valuation of such liabilities every five years. This valuation considers the funding of the Trust and the level of compensation to be paid. The last valuation was carried out in 2007.

Investment management

The Trustees delegate the day-to-day management of their investments to external investment managers, BlackRock Investment Management (UK) Limited. The Trustees set the long term investment strategy for the Trust after taking advice from the Trust's investment advisor.

The investment objective set by the Trustees is to achieve the best overall investment return over the longer term consistent with an acceptable degree of risk in relation to the nature and duration of the Trust's liabilities.

Further information

Enquiries about the Trust generally or about individual entitlement should be forwarded to:

The T & N Asbestos Trustee Company Limited
Unit 11B
Manchester International Office Centre
Styal Road
Manchester
M22 5WB

The UK Asbestos Trust

**Trustees' annual report
for the year ended 11 October 2009**

Statement of Trustees' responsibilities

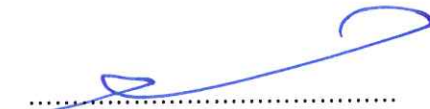
The audited financial statements are the responsibility of the Trustees. The Trust is governed by a Trust Deed which require the Trustees to make available to certain other parties audited financial statements for each Trust year which:

- show a true and fair view of the financial transactions of the Trust during the year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay claims which occur after the end of the Trust year; and
- have been prepared in accordance with the Trust Deed dated 10 October 2006 and in accordance with United Kingdom Generally Accepted Accounting Practice.

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

Under Trust law the Trustees have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Signed on behalf of the Trustee Company


.....
J J Gleave
Director
The T & N Asbestos Trustee Company Limited


.....
A O'Keefe
Director
The T & N Asbestos Trustee Company Limited

Approved by the Trustee on 28 May 2010

The UK Asbestos Trust

Independent auditor's report to the Trustees of The UK Asbestos Trust for the year ended 11 October 2009

We have audited the financial statements of The UK Asbestos Trust for the year ended 11 October 2009 on pages 8 to 14 which comprise the Fund account, Net Asset statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the trust's trustees, as a body, in accordance with the trust deed dated 10 October 2006 and in accordance with United Kingdom Generally Accepted Accounting Practice. Our audit work has been undertaken so that we might state to the trust's trustees 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 trust and the trust's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the trustees and the auditor

As described in the statement of trustees' responsibilities on page 5, the trustees are responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable United Kingdom law and accounting standards, and for procuring that compensation claims are paid out to claimants in accordance with the Trust Deed and with the recommendations of the actuary. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustees' report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the trust's circumstances, consistently applied and adequately disclosed. The work we carried out also included examination, on a test basis, of evidence relevant to the amounts of compensation claims paid out to claimants and the timings of those payments.

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 and that compensation claims have been paid in accordance with the Trust Deed and with the recommendations of the actuary. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The UK Asbestos Trust

**Independent auditor's report to the Trustees of The UK Asbestos Trust
for the year ended 11 October 2009**

Opinion

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Trust during the year ended 11 October 2009 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay compensation claims after the end of the Trust year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the information given in the Trustees' Annual Report is consistent with the financial statements.

Hurst & Company Accountants Ltd
.....

Hurst & Company Accountants LLP
Chartered Accountants & Registered Auditors
Lancashire Gate
21 Tiviot Dale
Stockport
Cheshire
SK1 1TD

Date *2 June 2010*

The UK Asbestos Trust

**Fund account
for the year ended 11 October 2009**

	Notes	2009		2008	
		£	£	£	£
Contributions and benefits					
Contributions receivable	2	25,678,879		4,969,928	
			25,678,879		4,969,928
Claims payable					
Pre-Chester Street insolvency dividend	3	(571,200)		-	
Compensation payments	4	(5,292,967)		(7,165,837)	
Other claims payments	4	(801,291)		(618,722)	
Administrative expenses	5	(241,623)		(216,079)	
			(6,907,081)		(8,000,638)
Net (withdrawal)/additions			18,771,798		(3,030,710)
Returns on investment					
Investment income	6	40,586		213,778	
Change in market value of investments	7	7,704,753		(4,812,072)	
Net returns on investments			7,745,339		(4,598,294)
Net (decrease)/increase in the fund	11		26,517,137		(7,629,004)
Net assets as at 12 October 2008	11		50,037,430		57,666,434
Net assets as at 11 October 2009	11		76,554,567		50,037,430


The notes on pages 10 to 14 form part of these financial statements.

The UK Asbestos Trust

Net assets statement
As at 11 October 2009

	Notes	2009		2008	
		£	£	£	£
Fixed assets					
Investments	7		74,414,408		47,909,655
Current assets					
Debtors	8	977,787		977,787	
Cash at bank	9	1,188,622		1,170,300	
			2,166,409		2,148,087
Creditors: amount falling due within one year	10	(26,250)		(20,312)	
			2,140,159		2,127,775
Total assets less current liabilities			76,554,567		50,037,430
Financed by					
Chester Street Fund	11		23,049,441		21,566,827
T & N Fund	11		53,505,126		28,470,603
Net assets at 11 October 2009			76,554,567		50,037,430

These financial statements were approved by the Trustee on the 28 May 2010 and are signed on their behalf by:


.....
J J Gleave
Director
The T & N Asbestos Trustee Company Limited


.....
A O'Keefe
Director
The T & N Asbestos Trustee Company Limited

The notes on pages 10 to 14 form part of these financial statements.

1. ACCOUNTING POLICIES

1.1 Basis of accounting

The financial statements have been prepared in accordance with the trust deed dated 10 October 2006 and with the guidelines set out in United Kingdom Generally Accepted Accounting Practice.

The financial statements summarise the transactions of the trust and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay compensation claims, which fall due after the end of the trust year.

Accounting policies

The principal accounting policies are set out below.

- (a) Contributions receivable are recognised when the Trust becomes unconditionally entitled to receive the contribution.
- (b) Investments are stated at market value as defined below.
- (c) Compensation payments are accounted for in the period in which they fall due.
- (d) Income from investments is dealt with in the period in which it is earned.
- (e) The costs of administration expenses and investment management are borne by the Trust and accounted for as they fall due.

Investment assets and income

Investment assets are stated at market value provided by BlackRock Investment Management (UK) Limited. The value of the policy is determined by the number of units notionally allocated to it.

Asbestos liabilities

The UK Asbestos Trust was established as a consequence of the approval of Company Voluntary Arrangements (CVAs) for the Federal Mogul Group of companies. The CVAs provided a mechanism for paying all asbestos liabilities, both current and future, of the Federal Mogul Group (excluding asbestos claims originating in the USA). The CVAs were also subject to approval by the UK High Court and the US Bankruptcy Court. As part of the US Bankruptcy process the US Bankruptcy Court was asked to consider the magnitude of asbestos liabilities relevant to The UK Asbestos Trust. On 19 August 2005 the US Court issued an order estimating that the net present value of current and future asbestos liabilities was £229.0m. The Directors concur with the views of the US Court. In addition the US Court did not consider the net present value of current and future liabilities relating to Chester Street. The Directors have estimated these liabilities at £108.0m. In total therefore, the Directors estimate that the net present value of all current and future liabilities of the Trust are £337.0m.

In view of these liabilities the Directors believe that it is inconceivable that the Trust (excluding Chester Street claims) will ever have a surplus after discharging all current and future asbestos claims.

The UK Asbestos Trust

Notes to the financial statements
for the year ended 11 October 2009

2. CONTRIBUTIONS RECEIVABLE

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Claims contributions:				
FM Friction Products	-	2,872,704	2,872,704	694,657
EL Scheme	-	2,119,962	2,119,962	3,235,378
JW Roberts	-	1,700	1,700	980
TBA Industrial Products	-	3,226,510	3,226,510	956,808
Federal Mogul Bradford	-	25,446	25,446	-
TBA Belting	-	985	985	10
T & N Shelf 26	-	47,920	47,920	6,060
Washington Chemical	-	12,470	12,470	1,230
Newalls Installations	-	6,400	6,400	515
FM Engineering	-	-	-	54,600
FM Sealing Systems	-	-	-	19,690
FM SS Slough	-	26,519	26,519	-
Federal Mogul	-	17,211,063	17,211,063	-
Turner & Newall	-	13,000	13,000	-
Aeroplane & Motor	-	20,000	20,000	-
Ashburton Road Services	-	53,000	53,000	-
Brake Linings	-	6,000	6,000	-
Duron	-	3,000	3,000	-
Edmunds Walker	-	1,000	1,000	-
Ferodo Caernarfon	-	1,000	1,000	-
Friction Materials	-	2,000	2,000	-
T&N Shelf 7	-	26,000	26,000	-
T&N Shelf 20	-	1,200	1,200	-
T&N Shelf 21	-	1,000	1,000	-
	-----	-----	-----	-----
Total contributions receivable	-	25,678,879	25,678,879	4,969,928
	=====	=====	=====	=====

3. DIVIDEND PAYMENT

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Pre Chester Street insolvency	571,200	-	571,200	-
	-----	-----	-----	-----
	571,200	-	571,200	-
	=====	=====	=====	=====

The UK Asbestos Trust

Notes to the financial statements
for the year ended 11 October 2009

4. CLAIMS PAYMENTS

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Payments to claimants:				
Legal costs	-	(447,629)	(447,629)	(524,308)
Medical costs	-	(87,773)	(87,773)	(86,449)
Issue fees	-	(1,525)	(1,525)	(7,965)
CRU repayment	-	(264,364)	(264,364)	-
	-	(801,291)	(801,291)	(618,722)
Compensation	(610,986)	(4,681,981)	(5,292,967)	(7,165,837)
	(610,986)	(5,483,272)	(6,094,258)	(7,784,559)

5. ADMINISTRATIVE EXPENSES

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Legal and professional fees	45,721	24,483	70,204	134,361
Rebate on management fees	-	-	-	(11,026)
Irrecoverable VAT	25,125	5,279	30,404	39,958
Audit fee	2,969	2,969	5,938	11,500
Trust advisory committee	-	400	400	2,353
Insurance	-	-	-	9,450
Bank charges	-	179	179	20
Trustee fees	132,495	2,000	134,495	29,463
Sundry	-	3	3	-
	206,310	35,313	241,623	216,079

6. INVESTMENT INCOME

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Bank interest received	10,758	29,828	40,586	213,778

The UK Asbestos Trust

Notes to the financial statements
for the year ended 11 October 2009

7. INVESTMENTS

	Chester Street Fund £	T & N Fund £	2009 Total £
BlackRock reconciliation			
Balance at 12 October 2008	20,516,723	27,392,932	47,909,655
Additions	21,886,472	50,146,670	72,033,142
Disposals	(22,786,471)	(30,446,671)	(53,233,142)
Profit on disposal	2,269,748	3,053,739	5,323,487
Change in market value	590,593	1,790,673	2,381,266
	<hr/>	<hr/>	<hr/>
Balance at 11 October 2009	22,477,065	51,937,343	74,414,408
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of units held during the year. The investment fund was changed in the year and the profit on this transaction has been disclosed separately.

	2009 Total %	2009 Total £	2008 Total %	2008 Total £
Details of investments held				
Black Rock Int Jersey Fund	-	-	100.0	47,909,655
Blackrock Cautious Fund	100.0	74,414,408	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

8. DEBTORS

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Certificates of taxation deposits	391,115	586,672	977,787	977,787
	<hr/>	<hr/>	<hr/>	<hr/>
	391,115	586,672	977,787	977,787
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

9. CASH AT BANK

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Deposit accounts	194,389	994,233	1,188,622	362,339
Guaranteed fixed deposit account	-	-	-	807,961
	<hr/>	<hr/>	<hr/>	<hr/>
	194,389	994,233	1,188,622	1,170,300
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The UK Asbestos Trust

Notes to the financial statements
for the year ended 11 October 2009

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Chester Street Fund £	T & N Fund £	2009 Total £	2008 Total £
Accruals and deferred income	13,125	13,125	26,250	20,312
	<u>13,125</u>	<u>13,125</u>	<u>26,250</u>	<u>20,312</u>

11. RESTRICTED FUND RESERVES

	Chester Street Fund £	T & N Fund £	2009 Total £
Balance as at 12 October 2008	21,566,827	28,470,603	50,037,430
Fund account movement	1,482,614	25,034,523	26,517,137
	<u>23,049,441</u>	<u>53,505,126</u>	<u>76,554,567</u>

12. RELATED PARTY TRANSACTIONS

During the year Trustee fees of £132,495 (2008: £29,463) and committee fees of £nil (2008: £1,153) were paid to Zolfo Cooper Limited, in which one of the directors of the trustee company is also a partner.

Independent Trustee fees of £2,000 (2008: £nil) were paid to C Melton, a director of the trustee company.

The Supervisory Trustees have the authority to charge fees to the Trust at their discretion.

13. CONTINGENT LIABILITIES

The Trust has put monies on deposit with HM Revenue & Customs in anticipation of potential taxation liabilities of £977,787 (Note 8). This is pending the outcome of discussions with the relevant authorities and advisors, the final outcome of which remains uncertain. The potential liability on income is approximately £2,002,982 (2008: £998,945).

APPENDIX G

The T&N EL Trust Accounts for the period from 12 October 2008 to 11 October 2009

T & N EL Scheme Trust

**Report and Financial Statements
for the year ended 11 October 2009**

T & N EL Scheme Trust

**Annual Report and Financial Statements
for the year ended 11 October 2009**

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T & N EL Scheme Trust

Trustees and advisors for the year ended 11 October 2009

Trustee	The T & N Asbestos Trustee Company Limited
Actuary	EMB Consultancy LLP Saddlers Court 64-74 East Street Epsom Surrey KT17 1HB
Investment manager	BlackRock Investment Management (UK) Limited 33 King William Street London EC4R 9AS
Investment advisor	Mercer 1 Whitehall Whitehall Road Leeds LS1 4HR
Auditor	Hurst & Company Accountants LLP Chartered Accountants & Registered Auditors Lancashire Gate 21 Tiviot Dale Stockport Cheshire SK1 1TD
Bankers	Halifax Bank of Scotland Pentland House, 2 nd Floor 8 Lochside Avenue Edinburgh Park South Gyle Edinburgh EH12 9DJ
Solicitors	Denton Wilde Sapte LLP 1 Fleet Place London EC4M 7WS
Administration office	The T & N Asbestos Trustee Company Limited Unit 11b Manchester International Office Centre Styal Road Manchester M22 5WB

T & N EL Scheme Trust

Trustees' annual report for the year ended 11 October 2009

The Trustees present their report and financial statements for the year ended 11 October 2009.

Introduction

The Trust was set up on 10 October 2006 and is governed by a Trust Deed signed on 23 November 2006. The Trust was set up to handle claims for compensation from asbestos related diseases.

The T&N EL Scheme Trust was established as a consequence of the approval of a Scheme of Arrangement for a large group of UK registered companies, all subsidiaries of Federal Mogul Inc. The purpose of the Trust is to establish a mechanism for paying asbestos related claims from ex-employees who were insured under various Employer's Liability policies. The Trust is unlikely to have sufficient funds to meet these liabilities in full and therefore claimants only receive a partial dividend. However all claimants also have the right to claim against The UK Asbestos Trust for any shortfall. All of the liabilities relate to the major UK operating company T&N Ltd and its subsidiaries. Many of these subsidiaries are now dormant. As a consequence of the approval of the Scheme of Arrangement claimants are obliged to pursue the T & N EL Scheme Trust and are precluded from the various Employers Liability Insurers. The settlement amounted to £36.0m.

Management of the Trust

The Trustee named on page 1 has served throughout the period.

The Trustee is a sole corporate trustee, and it shall have the power to resign as trustee, appoint additional Trustees and appoint a new Trustee in its own place.

The Trustee shall not have the power to resign as trustee until it has appointed a new Trustee to take its place in accordance with Clause 13.3.2.

Trustees meetings may be attended by one or more of its directors or duly authorised officers, employees or agents, and it shall have only one vote on business to be decided at the meeting.

The Trustee delegates many of their day to day responsibilities to a dedicated claims agreement team based in Manchester. However they reserve to themselves all strategic decisions as well as certain specific matters including claims rejection, investment strategy and tax. The Directors of the Trust company meet approximately 10 times during the year. In addition they convene meetings of the Trust Advisory Committee on at least a yearly basis.

T & N EL Scheme Trust

Trustees' annual report for the year ended 11 October 2009

Financial development of the Trust

The financial statements of the Trust for the year ended 11 October 2009, as set out on pages 8 to 13 have been prepared and audited in accordance with the Trust Deed dated 10 October 2006. A summary of the Trust's financial statements is set out in the table below:

	2009 Total £	2008 Total £
Compensation payments	(2,121,527)	(3,233,189)
Administrative expenses	(284,667)	(189,643)
	<hr/>	<hr/>
Net (withdrawal)/additions	(2,406,194)	(3,422,832)
Investment income	7,970	100,419
Change in market value of investments	3,676,910	(2,758,841)
	<hr/>	<hr/>
Net returns /(losses) on investments	3,684,880	(2,658,422)
Net (decrease)/increase in funds	1,278,686	(6,081,254)
Net assets at start of year	28,626,159	34,707,413
	<hr/>	<hr/>
Net assets at end of year	29,904,845	28,626,159
	<hr/> <hr/>	<hr/> <hr/>

The funds statement and net assets statement on pages 8 to 9 show that the value of the Trust's assets are £29,904,845 as at 11 October 2009 (2008: £28,626,159). The Trust achieved net returns on investments of £3,684,880 (2008: £2,658,422 net loss).

Further details of the financial developments of the scheme may be found in the audited financial statements on pages 8 to 13.

Compensation payments have decreased from £3.2m to £2.1m.

Investment income has fallen to £7,970 from £100,419, mainly due to the lower average level of funds held in bank accounts during the period.

The change in market value of investments of £3.7m gain (2008: £2.7m net losses) has arisen primarily due to the favourable investment climate and performance of the Trust's investment manager.

T & N EL Scheme Trust

Trustees' annual report for the year ended 11 October 2009

Actuarial status

The financial statements set out on pages 8 to 13 do not take into account the liabilities to provide claim payments which fall due after the year end. In respect of these liabilities, these are considered by the Trust actuary who carries out an actuarial valuation of such liabilities every five years. This valuation considers the funding of the Trust and the level of compensation to be paid. The last valuation was carried out in 2007.

Investment management

The Trustees delegate the day-to-day management of their investments to external investment managers. BlackRock Investment Management (UK) Limited. The Trustees set the long term investment strategy for the Trust after taking advice from the Trust's investment advisor.

The investment objective set by the Trustees is to achieve the best overall investment return over the longer term consistent with an acceptable degree of risk in relation to the nature and duration of the Trust's liabilities.

Further information

Enquiries about the scheme generally or about individual entitlement should be forwarded to:

The T & N Asbestos Trustee Company Limited
Unit 11B
Manchester International Office Centre
Styal Road
Manchester
M22 5WB

T & N EL Scheme Trust

**Trustees' annual report
for the year ended 11 October 2009**

Statement of Trustees' responsibilities

The audited financial statements are the responsibility of the Trustees. The Trust is governed by a Trust Deed which require the Trustees to make available to certain other parties audited financial statements for each Trust year which:

- show a true and fair view of the financial transactions of the Trust during the year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay compensation claims after the end of the Trust year; and
- have been prepared in accordance with the Trust Deed dated 23 November 2006 and in accordance with United Kingdom Generally Accepted Accounting Practice.

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

Under Trust law the Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Signed on behalf of the Trustee Company



J J Gleave
Director
The T & N Asbestos Trustee Company Limited



A O'Keefe
Director
The T & N Asbestos Trustee Company Limited

Approved by the Trustee on 28 May 2010

**Independent auditor's report to the Trustees of T & N EL Scheme Trust
for the year ended 11 October 2009**

We have audited the financial statements of T & N EL Scheme Trust for the year ended 11 October 2009 on pages 8 to 13 which comprise the Fund Account, Net Asset Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the trust's trustees, as a body, in accordance with the Trust Deed dated 23 November 2006 and in accordance with United Kingdom Generally Accepted Accounting Practice.

Our audit work has been undertaken so that we might state to the trust's trustees 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 Trust and the trust's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustees and the auditor

As described in the statement of Trustees' responsibilities on page 5, the Trustees are responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable United Kingdom law and accounting standards, and for procuring that compensation claims are paid out to claimants in accordance with the Trust Deed and with the recommendations of the Actuary. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustees' report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed. The work we carried out also included examination, on a test basis, of evidence relevant to the amounts of compensation claims paid out to claimants and the timings of those payments.

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 and that compensation claims have been paid in accordance with the Trust Deed and with the recommendations of the Actuary. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

T & N EL Scheme Trust

**Independent auditor's report to the Trustees of T & N EL Scheme Trust
for the year ended 11 October 2009**

Opinion

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the trust during the year ended 11 October 2009 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay compensation claims after the end of the trust year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the information given in the Trustees' Annual Report is consistent with the financial statements.

Hurst & Company Accountants LLP
.....

Hurst & Company Accountants LLP
Chartered Accountants & Registered Auditors
Lancashire Gate
21 Tiviot Dale
Stockport
Cheshire
SK1 1TD

Date *2 June 2010*

T & N EL Scheme Trust

Fund account for the year ended 11 October 2009

	Notes	2009		2008	
		£	£	£	£
Claims payable					
Compensation payments	2	(2,121,527)		(3,233,189)	
Administration expenses	3	(284,667)		(189,643)	
		<u> </u>	(2,406,194)	<u> </u>	(3,422,832)
			<u> </u>		<u> </u>
Net (withdrawal)/additions			(2,406,194)		(3,422,832)
Returns on investments					
Investment income	4	7,970		100,419	
Change in market value of investments	5	3,676,910		(2,758,841)	
		<u> </u>		<u> </u>	
Net returns on investments			3,684,880		(2,658,422)
			<u> </u>		<u> </u>
Net (decrease)/increase in the fund	9		1,278,686		(6,081,254)
Net assets as at 12 October 2008	9		28,626,159		34,707,413
			<u> </u>		<u> </u>
Net assets as at 11 October 2009	9		29,904,845		28,626,159
			<u> </u>		<u> </u>

The notes on pages 10 to 13 form part of these financial statements.

T & N EL Scheme Trust

Net assets statement
As at 11 October 2009

	Notes	2009		2008	
		£	£	£	£
Fixed assets					
Investments	5		29,271,036		27,394,126
Current assets					
Debtors	6	481,996		481,996	
Cash at bank	7	169,439		770,350	
			651,435	1,252,346	
Creditors: amount falling due within one year	8	(17,626)		(20,313)	
			633,809		1,232,033
Total assets less current liabilities			29,904,845		28,626,159
Net assets at 11 October 2009	9		29,904,845		28,626,159

These financial statements were approved by the Trustee on the 28 May 2010 and are signed on their behalf by:

J J Gleave
Director
The T & N Asbestos Trustee Company Limited

A O'Keefe
Director
The T & N Asbestos Trustee Company Limited

The notes on pages 10 to 13 form part of these financial statements.

Notes to the financial statements
for the year ended 11 October 2009

1. ACCOUNTING POLICIES

1.1 Basis of accounting

The financial statements have been prepared in accordance with the Trust Deed dated 23 November 2006 and with the guidelines set out in United Kingdom Generally Accepted Accounting Practice.

The financial statements summarise the transactions of the trust and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay compensation claims, which fall due after the end of the trust year.

Accounting policies

The principal accounting policies are set out below:

- (a) Investments are stated at market value as defined below.
- (b) Compensation payments are accounted for in the period in which they fall due.
- (c) Income from investments is dealt with in the period in which it is earned.
- (d) The costs of administration expenses and investment management are borne by the Trust and accounted for as they fall due.

Investment assets and income

Investment assets are stated at market value provided by BlackRock Investment Management (UK) Limited. The value of the policy is determined by the number of units notionally allocated to it.

Compensation payments

Claimants have up to 28 days in which to refer their claim to an Expert or accept the compensation offered.

2. COMPENSATION PAYMENTS

	2009 £	2008 £
Claim Payments to UK Asbestos Trust	2,121,527	3,233,189
	<hr/>	<hr/>
	2,121,527	3,233,189
	<hr/> <hr/>	<hr/> <hr/>

T & N EL Scheme Trust

**Notes to the financial statements
for the year ended 11 October 2009**

3. ADMINISTRATIVE EXPENSES

	2009 £	2008 £
Legal and professional fees	26,253	10,133
Bank charges	10	31
Audit fee	6,791	11,500
Irrecoverable VAT	35,419	39,586
Trustee fees	215,994	128,393
Sundry	200	-
	<u>284,667</u>	<u>189,643</u>

4. INVESTMENT INCOME

	2009 £	2008 £
Bank interest received	7,970	100,419
	<u>7,970</u>	<u>100,419</u>

5. INVESTMENTS

	2009 £
Balance as at 12 October 2008	27,394,126
Additions	28,507,767
Disposals	(30,307,767)
Profit on disposal	2,913,641
Change in market value	763,269
Balance as at 11 October 2009	<u>29,271,036</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of units held during the year. The investment fund was changed in the year and the profit on this transaction has been disclosed separately.

	2009 Total %	2009 Total £	2008 Total %	2008 Total £
Details of investments held				
Black Rock Int Jersey Fund	-	-	100.0	27,394,126
Black Rock Cautious Fund	100.0	29,271,036	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

T & N EL Scheme Trust

Notes to the financial statements for the year ended 11 October 2009

6. DEBTORS

	2009 £	2008 £
Certificates of taxation deposits	481,996	481,996
	<u>481,996</u>	<u>481,996</u>

7. CASH AT BANK

	2009 £	2008 £
Deposit accounts	-	468,632
Guaranteed fixed deposit account	169,439	301,718
	<u>169,439</u>	<u>770,350</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £	2008 £
Accruals and deferred income	17,626	20,313
	<u>17,626</u>	<u>20,313</u>

9. RESTRICTED FUND RESERVES

	2009 Total £
Balance as at 12 October 2008	28,626,159
Fund account movement	1,278,686
	<u>29,904,845</u>

10. CONTINGENT LIABILITIES

The Trust has put monies on deposit with HM Revenue & Customs in anticipation of potential taxation liabilities of £481,996 (Note 6). This is pending the outcome of discussions with the relevant authorities and advisors, the final outcome of which remains uncertain. The potential liability on income is approximately £1,120,029 (2008: £557,136).

11. RELATED PARTY TRANSACTIONS

During the year the professional fees of £215,994 (2008: £150,862) were paid to Zolfo Cooper Limited relating to the claims processing team in which one of the directors of the trustee company is also a director.

The Supervisory Trustee management fees have been paid in accordance with clauses 16, 8.4 and 8.5 of the Deed.

ZC ZOLFO COOPER