

The T&N UK Asbestos
Trust; and
The T&N EL Trust
Trustee's Annual Report 2010

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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 fourth 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 main highlights of the report are as follows:

- i During the year the Trusts received 422 claims (including 115 “Cape” claims) and paid out in respect of 405 claims. Payments to Trust claimants totalled £5.97 million.
- ii In December 2010 the government passed the requisite legislation to exempt the Trusts from Income, Capital and Inheritance tax. This exemption is of great significance to Trust claimants and is one of the main reasons for the substantial increase in dividend rates.
- iii At the start of the year the Trustee concluded it was appropriate to increase the dividend rates paid by the Trusts. The previous and current dividend rates are as follows:-

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

We continue to emphasise the sensitivity of dividend rates to the incidence of product liability claims (“PL claims”). During the past year the amount paid out in respect of PL claims was in line with our actuarial forecasts and accordingly we have not amended the dividend levels. We closely monitor the incidence of this type of claim on an ongoing basis. This is discussed more fully in section 2.7.

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 Gleave, Anne O’Keefe and Christopher Melton QC. James Gleave and Anne O’Keefe are Chartered Accountants at 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 5.

2.1 Claims Analysis

The claims submitted to the Trusts in the first four years of operation can be summarised below:

| Status | As at 11 October 2009 | As at 11 October 2010 |
|--|-----------------------|-----------------------|
| Paid | 708 | 963 |
| Awaiting further information from Trust claimant | 85 | 60 |
| Pending issue of Admission Notice | 9 | 24 |
| Subject to Expert review process | 2 | 3 |
| “Cape” Claims | 1 | - |
| Withdrawn | 46 | 55 |
| Rejected | 122 | 141 |
| Total | 973 | 1246 |

During the year the Trust received 115 “Cape Type” claims and paid 97 of them.

2.2 Payments to Trust Claimants

During the year a total of £5.21 million was paid out in respect of claims against the Trusts. The total during the first four years is £23.5 million and can be summarised as follows:

| £m | At 11 October 2009 | Paid during year | At 11 October 2010 | % of total |
|--------------------------------|--------------------|------------------|--------------------|------------|
| Payments to Trust claimants | 16.81 | 4.62 | 21.43 | 91.20 |
| Trust claimants' legal fees | 1.25 | 0.49 | 1.74 | 7.40 |
| Trust claimants' medical costs | 0.20 | 0.10 | 0.30 | 1.30 |
| Other | 0.03 | - | 0.03 | 0.10 |
| Total | 18.29 | 5.21 | 23.50 | 100.00 |

2.3 Disease Analysis

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

| Disease | % total claims |
|--------------------|----------------|
| Mesothelioma | 39 |
| Lung cancer | 11 |
| Asbestosis | 39 |
| Pleural thickening | 11 |
| Total | 100 |

2.4 Claims Subject to Expert Review Process

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

| Reason for referral | No of claims | Expert outcome |
|---------------------|--------------|---|
| Quantum | 1 | Increased award by more than 20% |
| Rejected by Trustee | 3 | One claim Expert upheld Trustee's decision. The remaining two claims have not yet been determined |

In total, during the first four years of the Trusts, 18 claims have been referred to the Expert.

2.5 Rejected Claims

Nineteen claims have been rejected during the year, making a total of 141 claims over the first four years of operation. All rejected claims are reviewed and discussed in detail at a meeting of the Trustee. A detailed explanation of the reason for rejection is provided to the Trust claimant at the time of rejection.

The main reasons for rejection are shown below:

| Reason for rejection | As at 11 October 2009 | Activity | As at 11 October 2010 |
|---|-----------------------|----------|-----------------------|
| Failure to satisfy medical criteria | 38 | 10 | 48 |
| No response to requests for further information | 24 | 2 | 26 |
| Failure to satisfy exposure criteria | 22 | 1 | 23 |
| Trust claimant had already been compensated in full | 15 | 1 | 16 |

| Reason for rejection | As at 11 October 2009 | Activity | As at 11 October 2010 |
|--|-----------------------|-----------|-----------------------|
| Exposure to asbestos prior to 1965 and did not fall within the Margereson/Hancock judgment | 9 | 2 | 11 |
| Limitation grounds | 6 | 3 | 9 |
| Lung cancer not meeting Helsinki criteria | 5 | - | 5 |
| Other | 3 | - | 3 |
| Total | 122 | 19 | 141 |

2.6 “Cape” Claims

“Cape” claims are defined within the Trust Distribution Procedures (TDP) and are essentially those overseas claims originating from Swaziland, Zimbabwe, Botswana, South Africa and India.

During the year we received no further claims from South Africa. However, as anticipated in our last report, we are now receiving a steady stream of claims from India, primarily relating to the operation of Hindustan Ferodo, a brake pad manufacturer which at one time was a subsidiary of T&N Limited. All of these Trust claimants have opted for an expedited review of their claim and in accordance with the legal advice received by the Trustee have been subject to a discount of 50% to reflect the significant litigation risks associated with claims of this nature.

A total of 115 “Cape” claims have been received originating from India. All claims have been accepted. Of the claims submitted, payment has been made in 97 cases. Payments to these Trust claimants total £440,000. Medical and legal fees totalled £159,650. The remaining 18 claims were paid after the end of the financial year at a total cost of £71,000 plus medical and legal fees. The Trustee is reviewing the level of cost and expenses to ensure they are proportionate to claims paid.

The overall amount paid out in respect of “Cape” claims remains within the parameters of the Trustee’s latest actuarial review and accordingly there is currently no requirement to amend the Trust’s dividend rates.

2.7 Product Liability Claims

The number of PL claims paid during the past four years can be summarised as follows:

| | |
|--------------|-----------|
| 2007 | - |
| 2008 | 4 |
| 2009 | 7 |
| 2010 | 13 |
| Total | 24 |

The increasing trend in PL claims is evident. In the early months of the 2011/12 financial year this trend has continued and we anticipate that we will pay approximately 20 to 25 PL claims this year.

The Trust paid out £300,000 in respect of PL claims in the year to 11 October 2010.

To date the amount paid out in respect of PL claims is in accordance with our actuarial model and we have not therefore needed to amend dividend rates.

The incidence of PL claims remains of significant concern, particularly as the Trusts appear to be the only major defendant that is paying PL claims. We understand that few if any other defendants are pursued because of the significant litigation risk, and therefore cost exposure, associated with these types of case. Currently PL claims that are pursued under the expedited review process are subject to a deduction of 33% to reflect litigation risk. In view of litigation risk mentioned above we have considered whether the 33% deduction adequately reflects the current legal environment. Both our own and our legal advisor's view is that the deduction does not fully reflect the risks associated with this type of claim. Based on discussions with our legal advisors we have recently taken the decision to increase the discount to 50%. The increased discount will apply to both Expedited and Individual Review claims. The increased discount level has taken effect from 17 March 2011. We intend discussing the reasons for the increase in discount with the Trust Advisory Committee at our next meeting.

3. Dividend Policy

The table below shows the dividend levels currently being paid to Trust claimants from the T&N UK Asbestos Trust and T&N EL Trust:

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

The Trustee now believes 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 6.

The next review of dividend levels is not scheduled until 2016. However, the Trustee will monitor the levels of claims and other factors such as the return on investment. In the event that these vary significantly from the assumptions used in the actuarial models, the Trustee has the power to amend the dividend levels at any time during the period to 2016.

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.

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 (£m) | Amount | % of total |
|-----------------------------------|--------|------------|
| Blackrock Cautious Portfolio Fund | 102.54 | 99 |
| Bank deposit accounts | 2.60 | 1 |
| Total | 105.14 | 100 |

4.3 Investment Performance

The performance of the Trusts' investments in the Blackrock Cautious Portfolio Fund can be summarised as follows:

| £m | Valuation 11/10/09 | Withdrawals | Investment Returns | Valuation 11/10/10 |
|---------------------|--------------------|-------------|--------------------|--------------------|
| T&N Fund | 51.94 | (3.85) | 4.30 | 52.39 |
| Chester Street Fund | 22.48 | (1.75) | 1.88 | 22.61 |
| EL Fund | 29.27 | (4.10) | 2.37 | 27.54 |
| Total | 103.69 | (9.70) | 8.55 | 102.54 |

The T&N Fund includes amounts relating to FM Friction Products (£2.1 million) and TBA Industrial Products (£2.4 million).

During the year the return on the Trusts' Investments was approximately 8.5%. The past year has seen significant volatility in all asset classes. The Trustee has been impressed with the manner in which their Investment Managers have handled this level of volatility. They have obtained a reasonable level of return without suffering excessive fluctuations in the value of investments. Our view is that their results reflect a sensible balance between maximising returns and an appropriate level of risk.

5. 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 this 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.

The claims submitted to the Chester Street Fund during the four years of the Trust's operation can be summarised as follows:

| Investment | As at 11 October 2009 | As at 11 October 2010 |
|------------------------------|-----------------------|-----------------------|
| Paid/established | 95 | 245 |
| Awaiting further information | 73 | 42 |
| Rejected | 44 | 74 |
| Total | 212 | 361 |

During the year a total of £1.35 million has been paid out in respect of compensation payments.

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

During the year the Trustee negotiated with British Shipbuilders a lump sum settlement of all claims relating to the period from the date of administration (1 October 2001) to 31 July 2010. British Shipbuilders represent a significant proportion of Chester Street claims. All claims relating to any prior period had been settled in a previous lump sum settlement.

The Trustee fully reviewed a representative sample of claims from this period and formulated its views as to an acceptable settlement. Subsequent to the year end these negotiations continued and on 6 April 2011 an agreement was concluded. The Trustee has agreed to make a payment of £2 million in respect of all British Shipbuilders claims up to 31 July 2010. In addition British Shipbuilders have agreed to forego all rights to any additional dividend entitlement. The agreement encompasses in excess of 2000 claims. The £2 million payment will be reflected in the accounts for next year.

6. Hercules

The T&N 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 £500 million.

Under the terms of the Trust Deed, the US Asbestos Trust has the primary responsibility for pursuing recoveries under the Policy. We maintain regular contact with US Asbestos Trustees but unfortunately, during the past year, progress has been minimal.

7. Tax Status

In our last report we indicated the steps the Trustee had taken to endeavour to secure a tax exempt status for the Trust Funds. These efforts culminated in a commitment from the Chancellor of Exchequer, contained in the June 2010 Emergency Budget, to exempt the Trusts from all the taxation. In December 2010 this commitment was enacted in law with the passing of the Finance Act 2010. A copy of the relevant Schedule to the Act is attached at Appendix C.

The one remaining outstanding taxation issue had been the question raised by Her Majesty's Revenue and Customs (HMRC) over the tax status of payments received by Trust claimants from the Trusts. HMRC had raised the possibility that these might be taxable in the Trust claimant's hands.

We strongly disagreed with the stance taken by HMRC, but in view of the uncertainty this might create in the minds of Trust claimants we believed it was necessary to have this matter formally

resolved. After a period of discussion with HMRC we submitted a formal application to have the issue determined under the HMRC Code of Practice procedures.

They replied to the Trustee on 14 September 2010, formally confirming that after further consideration, they now agreed with the Trustee's views. In other words the receipt of payments by Trust claimants from the Trusts does not constitute taxable income in any form.

8. TDP Changes

No changes were made to the TDP during the last year.

9. Professional Costs

During the year the legal and other professional fees paid by the Trusts can be analysed as follows:

| £000 | T&N | Chester St | EL |
|----------------|-----|------------|-----|
| Legal fees | 506 | 8 | 129 |
| Actuarial fees | 38 | 25 | 42 |
| Software | 45 | 29 | 48 |
| Tax and other | 53 | 39 | 52 |
| Total | 642 | 101 | 271 |

Trustee and claims administration fees in respect of the T&N Fund are borne by a dedicated fund that has been set aside for this specific purpose. The fees drawn from this fund do not impact on the level of dividend paid to Trust claimants. Payment from this dedicated fund can be drawn at the Trustee's discretion without further approval.

Trustee and claims administration fees in respect of the Chester Street Fund and EL Trust are drawn from the relevant Fund and approval is required from the appropriate Trust Advisory Committee. The fees incurred in the year to October 2010 are as follows:

| £000 | |
|---------------------|-----|
| Chester Street Fund | 281 |
| T&N EL Trust | 316 |

All these fees are paid to Zolfo Cooper LLP.

10. Trust Funds Accounts

Attached at Appendices A and B are copies of the Trust accounts for the period from 12 October 2009 to 2011 October 2010.

11. 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.

**The T&N UK Asbestos Trust Accounts for the period
from 12 October 2009 to 11 October 2010**

Appendix A

The UK Asbestos Trust

**Report and Financial Statements
for the year ended 11 October 2010**

The UK Asbestos Trust

**Annual Report and Financial Statements
for the year ended 11 October 2010**

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The UK Asbestos Trust

**Trustees and advisors
for the year ended 11 October 2010**

| | |
|------------------------------|---|
| 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 | SNR Denton 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 2010

The Trustees present their annual report and financial statements for the year ended 11 October 2010.

Introduction

The UK Asbestos Trust was set up on 12 October 2006 and is governed by a Trust Deed signed on 10 October 2006. The Trust comprises two funds: the T & N Asbestos Fund and the Chester Street Fund. The purpose of the Trust is to handle claims for compensation for asbestos related diseases caused by the activities of the T&N Group of companies.

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 Trust establishes 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 the T&N Fund and £22m for the Chester Street Fund.

Recent developments

During the year the Trust received 429 claims (270 against the T&N Asbestos Fund and 159 against the Chester Street Fund) and processed for payment 298 claims (135 against the T&N Asbestos Fund and 163 against the Chester Street Fund). In total £6m was paid to claimants: £4.65m from the T&N Asbestos Fund and £1.35m from the Chester Street Fund. Contributions from the T&N EL Trust and other funds totalled £1.8m. Throughout the year the Trustees continued to negotiate with HMRC over the appropriate tax treatment for income and capital gains arising from the Trust assets. These negotiations culminated in a statement from the Chancellor in June 2010 that he intended to exempt the Trust from all income, inheritance and Capital taxes. This statement was encapsulated in the Finance Act which passed into law at the end of 2010.

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 2010

Financial development of the Trust

The financial statements of the Trust for the year ended 11 October 2010, 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 £ | 2010 Total £ | 2009 Total £ |
|--|-----------------------------|--------------------|--------------------|--------------------|
| Contributions receivable | - | 1,800,219 | 1,800,219 | 25,678,879 |
| Pre Chester St Insolvency dividend | - | - | - | (571,200) |
| Compensation payments | (1,345,785) | (4,624,181) | (5,969,966) | (5,292,967) |
| Other claims payments | (43,847) | (593,582) | (637,429) | (801,291) |
| Administrative expenses | (380,542) | (780,243) | (1,160,785) | (241,623) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net (withdrawal)/additions | (1,770,174) | (4,197,787) | (5,967,961) | 18,771,798 |
| Investment income | 9,351 | 21,287 | 30,638 | 40,586 |
| Change in market value of investments | 1,882,946 | 4,302,065 | 6,185,011 | 7,704,753 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net (losses)/returns on investments | 1,892,297 | 4,323,352 | 6,215,649 | 7,745,339 |
| Net (decrease)/increase in funds | 122,123 | 125,565 | 247,688 | 26,517,137 |
| Net assets at start of year | 23,049,441 | 53,505,126 | 76,554,567 | 50,037,430 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net assets at end of year | 23,171,564 | 53,630,691 | 76,802,255 | 76,554,567 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The funds statement and net assets statement on pages 8 to 9 show that the values of the trust's assets are £76,802,255 as at 11 October 2010 (2009: £76,554,567).

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

The increase in compensation payments from £5.3m last year to £6.0m is almost entirely caused by increased payments from the Chester Street Fund, up from £0.61 million to £1.35 million. Payments from the T&N Asbestos Fund remained consistent with the previous year..

The net gains on investments of £6.2m (2009: £7.7m net gain) has occurred mainly due to the favourable investment climate and the performance of the Trust investment manager.

The UK Asbestos Trust

Trustees' annual report for the year ended 11 October 2010

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 or when requested by the Trustees. In the light of the claims experience in the first four years of the Trust and the granting of the exemption from all taxes, the Trustees believed it was appropriate to commission a new actuarial valuation. This valuation has now been received and as a consequence the Trustees have increased the dividend paid from both funds. The increase is effective from 11 October 2010.

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

Tel: 0161 838 4558

Website: tandnasbestos.org.uk

The UK Asbestos Trust

Trustees' annual report
for the year ended 11 October 2010

Statement of Trustees' responsibilities

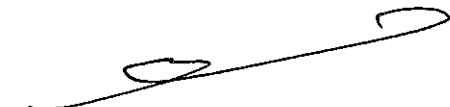
The audited financial statements are the responsibility of the Trustees. The Trust is governed by a Trust Deed which require the Trustees to make available to certain other parties audited financial statements for each Trust year which:


- 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
Chairman
The T & N Asbestos Trustee Company Limited


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

Approved by the Trustee on 17 March 2011

**Independent auditor's report to the Trustees of The UK Asbestos Trust
for the year ended 11 October 2010**

We have audited the financial statements of The UK Asbestos Trust for the year ended 11 October 2010 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 2010

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 2010 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; and
- the information given in the Trustees' Annual Report is consistent with the financial statements.

Hurst & Company Accountants Ltd
.....

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

Date *21 March 2011*
.....

The UK Asbestos Trust

**Fund account
for the year ended 11 October 2010**

| | Notes | 2010 | | 2009 | |
|--|-------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | £ | £ | £ | £ |
| Contributions and benefits | | | | | |
| Contributions receivable | 2 | 1,800,219 | | 25,678,879 | |
| | | <u> </u> | 1,800,219 | <u> </u> | 25,678,879 |
| Claims payable | | | | | |
| Pre-Chester Street insolvency dividend | 3 | - | | (571,200) | |
| Compensation payments | 4 | (5,969,966) | | (5,292,967) | |
| Other claims payments | 4 | (637,429) | | (801,291) | |
| Administrative expenses | 5 | (1,160,785) | | (241,623) | |
| | | <u> </u> | (7,768,180) | <u> </u> | (6,907,081) |
| Net (withdrawal)/additions | | | (5,967,961) | | 18,771,798 |
| Returns on investment | | | | | |
| Investment income | 6 | 30,638 | | 40,586 | |
| Change in market value of investments | 7 | 6,185,011 | | 7,704,753 | |
| Net returns on investments | | <u> </u> | 6,215,649 | <u> </u> | 7,745,339 |
| Net (decrease)/increase in the fund | 11 | | 247,688 | | 26,517,137 |
| Net assets as at 12 October 2009 | 11 | | 76,554,567 | | 50,037,430 |
| Net assets as at 11 October 2010 | 11 | | <u> </u> | | <u> </u> |
| | | | 76,802,255 | | 76,554,567 |

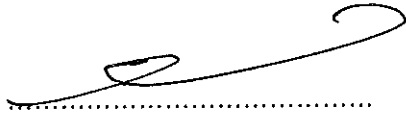
The notes on pages 10 to 14 form part of these financial statements.

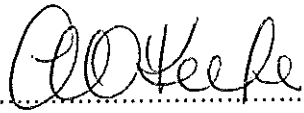
The UK Asbestos Trust

Net assets statement
As at 11 October 2010

| | Notes | 2010 | | 2009 | |
|--|-------|------|--------------------------|------|--------------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Investments | 7 | | 74,999,410 | | 74,414,408 |
| Current assets | | | | | |
| Debtors | 8 | | - | | 977,787 |
| Cash at bank | 9 | | 1,810,483 | | 1,188,622 |
| | | | <u>1,810,483</u> | | <u>2,166,409</u> |
| Creditors: amount falling due within one year | 10 | | <u>(7,638)</u> | | <u>(26,250)</u> |
| | | | <u>1,802,845</u> | | <u>2,140,159</u> |
| Total assets less current liabilities | | | <u><u>76,802,255</u></u> | | <u><u>76,554,567</u></u> |
| Financed by | | | | | |
| Chester Street Fund | 11 | | 23,171,564 | | 23,049,441 |
| T & N Fund | 11 | | 53,630,691 | | 53,505,126 |
| | | | <u>76,802,255</u> | | <u>76,554,567</u> |
| Restricted Fund Reserve at 11 October 2010 | | | <u><u>76,802,255</u></u> | | <u><u>76,554,567</u></u> |

These financial statements were approved by the Trustee on the 17th March 2011 and are signed on their behalf by:


.....
J J Gleave
Chairman
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.

The UK Asbestos Trust

Notes to the financial statements As at 11 October 2010

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.

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. 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 at the date of the inception of the Trust were £337.0m.

In view of these liabilities the Directors believe that it is inconceivable that the Trust (excluding the Chester Street Fund) 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 2010

2. CONTRIBUTIONS RECEIVABLE

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|---------------------------------------|-----------------------------|------------------|--------------------|--------------------|
| Claims contributions: | | | | |
| FM Friction Products | - | - | - | 2,872,704 |
| EL Scheme | - | 1,744,211 | 1,744,211 | 2,119,962 |
| JW Roberts | - | - | - | 1,700 |
| TBA Industrial Products | - | - | - | 3,226,510 |
| Federal Mogul Bradford | - | - | - | 25,446 |
| TBA Belting | - | - | - | 985 |
| T & N Shelf 26 | - | - | - | 47,920 |
| Washington Chemical | - | - | - | 12,470 |
| Newalls Installations | - | - | - | 6,400 |
| FM Bradford | - | 14,006 | 14,006 | - |
| FM Sealing Systems | - | - | - | - |
| FM SS Slough | - | - | - | 26,519 |
| Federal Mogul | - | - | - | 17,211,063 |
| Turner & Newall | - | - | - | 13,000 |
| Aeroplane & Motor | - | - | - | 20,000 |
| Ashburton Road Services | - | - | - | 53,000 |
| Brake Linings | - | - | - | 6,000 |
| Duron | - | - | - | 3,000 |
| Edmunds Walker | - | - | - | 1,000 |
| Ferodo Caernarfon | - | - | - | 1,000 |
| Friction Materials | - | - | - | 2,000 |
| T&N Shelf 7 | - | - | - | 26,000 |
| T&N Shelf 20 | - | - | - | 1,200 |
| T&N Shelf 21 | - | - | - | 1,000 |
| Unclaimed dividends from CVA | - | 42,002 | 42,002 | - |
| Total contributions receivable | - | 1,800,219 | 1,800,219 | 25,678,879 |

3. DIVIDEND PAYMENT

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|-------------------------------|-----------------------------|-----------------|--------------------|--------------------|
| Pre Chester Street insolvency | - | - | - | 571,200 |
| | - | - | - | 571,200 |

Notes to the financial statements
for the year ended 11 October 2010

4. CLAIMS PAYMENTS

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|------------------------|-----------------------------|--------------------|--------------------|--------------------|
| Payments to claimants: | | | | |
| Legal costs | - | (493,182) | (493,182) | (447,629) |
| Medical costs | (43,847) | (99,935) | (143,782) | (87,773) |
| Issue fees | - | (465) | (465) | (1,525) |
| CRU repayment | - | - | - | (264,364) |
| | <u>(43,847)</u> | <u>(593,582)</u> | <u>(637,429)</u> | <u>(801,291)</u> |
| Compensation | (1,345,785) | (4,624,181) | (5,969,966) | (5,292,967) |
| | <u>(1,389,632)</u> | <u>(5,217,763)</u> | <u>(6,607,395)</u> | <u>(6,094,258)</u> |

5. ADMINISTRATIVE EXPENSES

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|-----------------------------|-----------------------------|-----------------|--------------------|--------------------|
| Legal and professional fees | 101,041 | 641,547 | 742,588 | 70,204 |
| Rebate on management fees | (9,997) | (22,778) | (32,775) | - |
| Irrecoverable VAT | (1,345) | 114,175 | 112,830 | 30,404 |
| Audit fee | 3,055 | 4,583 | 7,638 | 5,938 |
| Trust advisory committee | 951 | 512 | 1,463 | 400 |
| Insurance | 5,224 | 21,607 | 26,831 | - |
| Bank charges | 10 | 60 | 70 | 179 |
| Trustee fees | 283,665 | 16,127 | 299,792 | 134,495 |
| Sundry | 993 | 1,355 | 2,348 | 3 |
| | <u>380,542</u> | <u>780,243</u> | <u>1,160,785</u> | <u>241,623</u> |

6. INVESTMENT INCOME

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|------------------------|-----------------------------|-----------------|--------------------|--------------------|
| Bank interest received | 9,351 | 21,287 | 30,638 | 40,586 |

7. INVESTMENTS

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ |
|---------------------------------|-----------------------------|-------------------|--------------------|
| BlackRock reconciliation | | | |
| Balance at 12 October 2009 | 22,477,065 | 51,937,343 | 74,414,408 |
| Additions | - | - | - |
| Disposals | (1,750,003) | (3,850,006) | (5,600,009) |
| Change in market value | 1,882,946 | 4,302,065 | 6,185,011 |
| | <u>22,610,008</u> | <u>52,389,402</u> | <u>74,999,410</u> |
| Balance at 11 October 2010 | <u>22,610,008</u> | <u>52,389,402</u> | <u>74,999,410</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.

| | 2010 Total % | 2010 Total £ | 2009 Total % | 2009 Total £ |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Details of investments held | | | | |
| BlackRock Cautious Fund | 100.0 | 74,999,410 | 100.0 | 74,414,408 |
| | <u>100.0</u> | <u>74,999,410</u> | <u>100.0</u> | <u>74,414,408</u> |

8. DEBTORS

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|-----------------------------------|-----------------------------|-----------------|--------------------|--------------------|
| Certificates of taxation deposits | - | - | - | 977,787 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>977,787</u> |

9. CASH AT BANK

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|------------------|-----------------------------|------------------|--------------------|--------------------|
| Deposit accounts | 574,681 | 1,235,802 | 1,810,483 | 1,188,622 |
| | <u>574,681</u> | <u>1,235,802</u> | <u>1,810,483</u> | <u>1,188,622</u> |

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ | 2009 Total £ |
|------------------------------|-----------------------------|-----------------|--------------------|--------------------|
| Accruals and deferred income | 3,055 | 4,583 | 7,638 | 26,250 |
| | <u>3,055</u> | <u>4,583</u> | <u>7,638</u> | <u>26,250</u> |

11. RESTRICTED FUND RESERVES

| | Chester Street Fund £ | T & N Fund £ | 2010 Total £ |
|-------------------------------|-----------------------------|-------------------|--------------------|
| Balance as at 12 October 2009 | 23,049,441 | 53,505,126 | 76,554,567 |
| Fund account movement | 122,123 | 125,565 | 247,688 |
| Balance as at 11 October 2010 | <u>23,171,564</u> | <u>53,630,691</u> | <u>76,802,255</u> |

12. RELATED PARTY TRANSACTIONS

During the year Trustee fees of £280,998 (2009: £132,495) were paid to Zolfo Cooper LLP , in which one of the directors of the trustee company is also a partner.

Independent Trustee fees of £17,495 (2009: £17,388) were paid to C Melton, a director of the trustee company.

**The T&N EL Trust Accounts for the period from
12 October 2009 to 11 October 2010**

Appendix B

T & N EL Scheme Trust

**Report and Financial Statements
for the year ended 11 October 2010**

T & N EL Scheme Trust

Annual Report and Financial Statements for the year ended 11 October 2010

| Contents | Page |
|---|-------------|
| Trustees and advisors | 1 |
| Trustees' annual report | 2-5 |
| Independent auditors' report to the Trustees of T & N EL Scheme Trust | 6-7 |
| Fund account | 8 |
| Net asset statement | 9 |
| Notes to the financial statements | 10-13 |

T & N EL Scheme Trust

**Trustees and advisors
for the year ended 11 October 2010**

| | |
|------------------------------|---|
| 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 | SNR Denton 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 2010

The Trustees present their annual report and financial statements for the year ended 11 October 2010.

Introduction

The Trust was set up on 10 October 2006 and is governed by a Trust Deed signed on 23 November 2006. The purpose of the Trust is to handle claims for compensation for asbestos related diseases caused by the activities of the T&N Group of companies. To qualify for compensation from this Trust, claimants must have been able to pursue claims against a number of Employers Liability Insurance policies held by the T&N Group.

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 Trust establishes a mechanism for paying asbestos related claims from ex-employees who were insured under various Employers' Liability policies. The Trust may not have sufficient funds to meet these liabilities in full and therefore claimants may 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 claiming against the various Employers Liability Insurers. The settlement with the Employer's Liability Insurers amounted to £36m and this settlement formed the initial funding for the Trust.

Recent developments

During the year the Trust received 33 claims and processed for payment 41 claims. In total £2m was paid to claimants.

Throughout the year the Trustees continued to negotiate with HMRC over the appropriate tax treatment for income and capital gains arising from the Trust assets. These negotiations culminated in a statement from the Chancellor in June 2010 that he intended to exempt the Trust from all income, inheritance and Capital taxes. This statement was encapsulated in the Finance Act which passed into law at the end of 2010.

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 2010

Financial development of the Trust

The financial statements of the Trust for the year ended 11 October 2010, 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:

| | 2010 Total £ | 2009 Total £ |
|---|---|---|
| Compensation payments | (1,744,211) | (2,121,527) |
| Indemnity rights dividend | (1,614,900) | - |
| Administrative expenses | (604,619) | (284,667) |
| | <hr/> | <hr/> |
| Net (withdrawal)/additions | (3,963,730) | (2,406,194) |
| Investment income | 13,542 | 7,970 |
| Change in market value of investments | 2,368,837 | 3,676,910 |
| | <hr/> | <hr/> |
| Net returns /(losses) on investments | 2,382,379 | 3,684,880 |
| Net (decrease)/increase in funds | (1,581,351) | 1,278,686 |
| Net assets at start of year | 29,904,845 | 28,626,159 |
| | <hr/> | <hr/> |
| Net assets at end of year | 28,323,494 | 29,904,845 |
| | <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 £28,323,494 as at 11 October 2010 (2009: £29,904,845). The Trust achieved net returns on investments of £2,382,379 (2009:£ 3,684,880).

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 reduced from £2.1m in 2009, to £1.75m, primarily as a result of a reduction in the number of claims received during the year,

The change in market value of investments of £2.4m gain (2009: £3.7m gain) has arisen mainly 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 2010

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 or when requested by the Trustees. In the light of the claims experience in the first four years of the Trust and the granting of the exemption from all taxes, the Trustees believed it was appropriate to commission a new actuarial valuation. This valuation has now been received and as a consequence the Trustees have increased the dividend paid from both funds. The increase is effective from 11 October 2010.

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

Tel: 0161 838 4558

Website: tandnasbestos.org.uk

T & N EL Scheme Trust

Trustees' annual report for the year ended 11 October 2010

Statement of Trustees' responsibilities

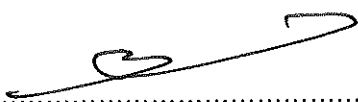
The audited financial statements are the responsibility of the Trustees. The Trust is governed by a Trust Deed which require the Trustees to make available to certain other parties audited financial statements for each Trust year which:

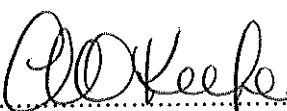
- show a true and fair view of the financial transactions of the Trust during the year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay compensation claims after the end of the Trust year; and
- have been prepared in accordance with 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
Chairman
The T & N Asbestos Trustee Company Limited


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

Approved by the Trustee on 17 March 2011

T & N EL Scheme Trust

Independent auditor's report to the Trustees of T & N EL Scheme Trust for the year ended 11 October 2010

We have audited the financial statements of T & N EL Scheme Trust for the year ended 11 October 2010 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 2010**

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 2010 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 & Statutory Auditors
Lancashire Gate
21 Tiviot Dale
Stockport
Cheshire
SK1 1TD

Date *21 March 2011*

T & N EL Scheme Trust

**Fund account
for the year ended 11 October 2010**

| | Notes | 2010 | | 2009 | |
|--|-------|-------------|-------------|-------------|-------------|
| | | £ | £ | £ | £ |
| Claims payable | | | | | |
| Compensation payments | 2 | (1,744,211) | | (2,121,527) | |
| Indemnity rights dividend | 5 | (1,614,900) | | | |
| Administration expenses | 3 | (604,619) | | (284,667) | |
| | | | (3,963,730) | | (2,406,194) |
| Net (withdrawal)/additions | | | (3,963,730) | | (2,406,194) |
| Returns on investments | | | | | |
| Investment income | 4 | 13,542 | | 7,970 | |
| Change in market value of investments | 6 | 2,368,837 | | 3,676,910 | |
| Net returns on investments | | | 2,382,379 | | 3,684,880 |
| Net (decrease)/increase in the fund | 10 | | (1,581,351) | | 1,278,686 |
| Net assets as at 12 October 2009 | 10 | | 29,904,845 | | 28,626,159 |
| Net assets as at 11 October 2010 | 10 | | 28,323,494 | | 29,904,845 |


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

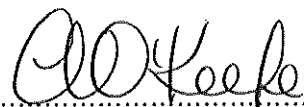
T & N EL Scheme Trust

Net assets statement
As at 11 October 2010

| | Notes | 2010 | | 2009 | |
|--|-------|------|------------|------|------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Investments | 5 | | 27,539,873 | | 29,271,036 |
| Current assets | | | | | |
| Debtors | 6 | | - | | 481,996 |
| Cash at bank | 7 | | 791,259 | | 169,439 |
| | | | 791,259 | | 651,435 |
| Creditors: amount falling due within one year | 8 | | (7,638) | | (17,626) |
| | | | 783,621 | | 633,809 |
| Total assets less current liabilities | | | 28,323,494 | | 29,904,845 |
| Restricted Fund Reserve at 11 October 2010 | 9 | | 28,323,494 | | 29,904,845 |

These financial statements were approved by the Trustee on the 17th March and are signed on their behalf by:


.....
J J Gleave
Chairman
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 2010

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.

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

| | 2010 £ | 2009 £ |
|-------------------------------------|-------------|-------------|
| Claim Payments to UK Asbestos Trust | 1,744,211 | 2,121,527 |
| | <hr/> | <hr/> |
| | 1,744,211 | 2,121,527 |
| | <hr/> <hr/> | <hr/> <hr/> |

T & N EL Scheme Trust

**Notes to the financial statements
for the year ended 11 October 2010**

3. ADMINISTRATIVE EXPENSES

| | 2010 | 2009 |
|-----------------------------|-------------|-------------|
| | £ | £ |
| Legal and professional fees | 271,595 | 26,253 |
| Rebate on management fees | (1,099) | - |
| Irrecoverable VAT | (2,919) | 35,419 |
| Audit fee | 7,638 | 6,791 |
| Trust advisory committee | 533 | - |
| Insurance | 8,548 | - |
| Bank charges | 10 | 10 |
| Trustee fees | 319,008 | 215,994 |
| Sundry | 1,305 | 200 |
| | <hr/> | <hr/> |
| | 604,619 | 284,667 |
| | <hr/> <hr/> | <hr/> <hr/> |

4. INVESTMENT INCOME

| | 2010 | 2009 |
|------------------------|-------------|-------------|
| | £ | £ |
| Bank interest received | 13,542 | 7,970 |
| | <hr/> | <hr/> |
| | 13,542 | 7,970 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. INDEMNITY RIGHTS

| | 2010 | 2009 |
|--------------------------------------|-------------|-------------|
| | £ | £ |
| Indemnity rights payment to Insurers | 1,614,900 | - |
| | <hr/> | <hr/> |
| | 1,614,900 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

T & N EL Scheme Trust

Notes to the financial statements
for the year ended 11 October 2010

6. INVESTMENTS

| | 2010 £ |
|-------------------------------|-------------|
| Balance as at 12 October 2009 | 29,271,036 |
| Additions | - |
| Disposals | (4,100,000) |
| Change in market value | 2,368,837 |
| | <hr/> |
| Balance as at 11 October 2010 | 27,539,873 |
| | <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.

| | 2010 Total % | 2010 Total £ | 2009 Total % | 2009 Total £ |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Details of investments held | | | | |
| Black Rock Cautious Fund | 100.0 | 27,539,873 | 100.0 | 29,271,036 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

7. DEBTORS

| | 2010 £ | 2009 £ |
|-----------------------------------|-------------|-------------|
| Certificates of taxation deposits | - | 481,996 |
| | <hr/> | <hr/> |
| | - | 481,996 |
| | <hr/> <hr/> | <hr/> <hr/> |

8. CASH AT BANK

| | 2010 £ | 2009 £ |
|------------------|-------------|-------------|
| Deposit accounts | 791,259 | 169,439 |
| | <hr/> | <hr/> |
| | 791,259 | 169,439 |
| | <hr/> <hr/> | <hr/> <hr/> |

T & N EL Scheme Trust

Notes to the financial statements for the year ended 11 October 2010

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2010 £ | 2009 £ |
|------------------------------|--------------|---------------|
| Accruals and deferred income | 7,638 | 17,626 |
| | <u>7,638</u> | <u>17,626</u> |

10. RESTRICTED FUND RESERVES

| | 2010 Total £ |
|-------------------------------|--------------------|
| Balance as at 12 October 2009 | 29,904,845 |
| Fund account movement | (1,581,351) |
| | <u>28,323,494</u> |

11. RELATED PARTY TRANSACTIONS

During the year the professional fees of £316,239 (2009: £215,994) were paid to Zolfo Cooper LLP relating to the claims processing team in which one of the directors of the trustee company is also a director.

Independent Trustee fees of £2,769 (2009: £nil) were paid to C Melton, a director of the trustee company.

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



Tax exemption - Finance Act 2010, Schedule 14

Appendix C

Status: This is the original version (as it was originally enacted). This item of legislation is currently only available in its original format.

SCHEDULES

SCHEDULE 14

Section 31

ASBESTOS COMPENSATION SETTLEMENTS

Inheritance tax

1 *Inheritance tax*

- (1) Section 58 of IHTA 1984 (relevant property) is amended as follows.
- (2) For the word “and” at the end of subsection (1)(e) substitute—
 - “(ea) property comprised in an asbestos compensation settlement, and”.
- (3) After subsection (3) insert—
 - “(4) In subsection (1)(ea) above “asbestos compensation settlement” means a settlement—
 - (a) the sole or main purpose of which is making compensation payments to or in respect of individuals who have, or had before their death, an asbestos-related condition, and
 - (b) which is made before 24 March 2010 in pursuance of an arrangement within subsection (5) below.
 - (5) An arrangement is within this subsection if it is—
 - (a) a voluntary arrangement that has taken effect under Part 1 of the Insolvency Act 1986 or Part 2 of the Insolvency (Northern Ireland) Order 1989,
 - (b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985, Article 418 of the Companies (Northern Ireland) Order 1986 or Part 26 of the Companies Act 2006, or
 - (c) an arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) above that has taken effect under, or as a result of, the law of a country or territory outside the United Kingdom.”
- (4) The amendments made by this paragraph are treated as having come into force on 6 April 2006.

Capital gains tax

2 *Capital gains tax*

- (1) Section 271 of TCGA 1992 (other miscellaneous exemptions) is amended as follows.
- (2) After subsection (1)(e) insert—

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“(ea) any gain accruing on the disposal by the trustees of an asbestos compensation settlement of any property comprised in the settlement;”.

(3) After subsection (1) insert—

“(1ZA) In subsection (1)(ea) above “asbestos compensation settlement” means a settlement—

- (a) the sole or main purpose of which is making compensation payments to or in respect of individuals who have, or had before their death, an asbestos-related condition, and
- (b) which is made before 24 March 2010 in pursuance of an arrangement within subsection (1ZB) below.

(1ZB) An arrangement is within this subsection if it is—

- (a) a voluntary arrangement that has taken effect under Part 1 of the Insolvency Act 1986 or Part 2 of the Insolvency (Northern Ireland) Order 1989,
- (b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985, Article 418 of the Companies (Northern Ireland) Order 1986 or Part 26 of the Companies Act 2006, or
- (c) an arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) above that has taken effect under, or as a result of, the law of a country or territory outside the United Kingdom.”

(4) The amendments made by this paragraph are treated as having come into force on 6 April 2006.

Income tax

3 *Income tax*

(1) ITA 2007 is amended as follows.

(2) In section 462(11) (overview of Part), after “charitable trusts” insert “and section 838A for special provision about asbestos compensation settlements”.

(3) After section 838 (exemption from income tax for local authorities and local authority associations) insert—

“838A Asbestos compensation settlements

(1) The trustees of an asbestos compensation settlement are not liable to income tax in respect of the income of the trustees.

(2) In this section “asbestos compensation settlement” means a settlement—

- (a) the sole or main purpose of which is making compensation payments to or in respect of individuals who have, or had before their death, an asbestos-related condition, and
- (b) which is made before 24 March 2010 in pursuance of an arrangement within subsection (3).

(3) An arrangement is within this subsection if it is—

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- (a) a voluntary arrangement that has taken effect under Part 1 of the Insolvency Act 1986 or Part 2 of the Insolvency (Northern Ireland) Order 1989,
 - (b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985, Article 418 of the Companies (Northern Ireland) Order 1986 or Part 26 of the Companies Act 2006, or
 - (c) an arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) that has taken effect under, or as a result of, the law of a country or territory outside the United Kingdom.”
- (4) The amendments made by sub-paragraphs (2) and (3) are treated as having had effect for the tax year 2007-08 and subsequent tax years.
- (5) ICTA is treated as having had effect for the tax year 2006-07 with an amendment, after section 518 of that Act, which corresponds to that made by sub-paragraph (3).

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