

**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

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

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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/>
<b>Net (withdrawal)/additions</b>	<b>(1,770,174)</b>	<b>(4,197,787)</b>	<b>(5,967,961)</b>	<b>18,771,798</b>
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/>
<b>Net (losses)/returns on investments</b>	<b>1,892,297</b>	<b>4,323,352</b>	<b>6,215,649</b>	<b>7,745,339</b>
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/>
<b>Net assets at end of year</b>	<b>23,171,564</b>	<b>53,630,691</b>	<b>76,802,255</b>	<b>76,554,567</b>
	<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**

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#### **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](http://tandnasbestos.org.uk)

The UK Asbestos Trust

Trustees' annual report  
for the year ended 11 October 2010

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Statement of Trustees' responsibilities

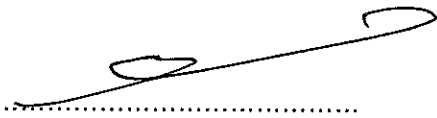
The audited financial statements are the responsibility of the Trustees. The Trust is governed by a Trust Deed which require the Trustees to make available to certain other parties audited financial statements for each Trust year which:

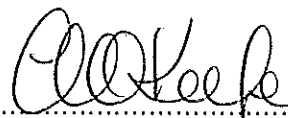
- show a true and fair view of the financial transactions of the Trust during the year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay claims which occur after the end of the Trust year; and
- have been prepared in accordance with 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**

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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

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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*  
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The UK Asbestos Trust

Fund account  
for the year ended 11 October 2010

	Notes	2010		2009	
		£	£	£	£
<b>Contributions and benefits</b>					
Contributions receivable	2	1,800,219		25,678,879	
			1,800,219		25,678,879
<b>Claims payable</b>					
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)	
			(7,768,180)		(6,907,081)
Net (withdrawal)/additions			(5,967,961)		18,771,798
<b>Returns on investment</b>					
Investment income	6	30,638		40,586	
Change in market value of investments	7	6,185,011		7,704,753	
Net returns on investments			6,215,649		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		76,802,255		76,554,567

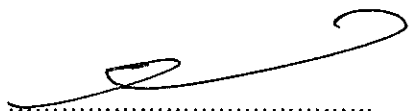
The notes on pages 10 to 14 form part of these financial statements.


The UK Asbestos Trust

Net assets statement  
As at 11 October 2010

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

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.

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.

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

The UK Asbestos Trust

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
	<u>9,351</u>	<u>21,287</u>	<u>30,638</u>	<u>40,586</u>

The UK Asbestos Trust

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

7. INVESTMENTS

	Chester Street Fund £	T & N Fund £	2010 Total £
<b>BlackRock reconciliation</b>			
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 £
<b>Details of investments held</b>				
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.