Company Registration Number 02989901

TENNECO MANAGEMENT (EUROPE) LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2018

TENNECO MANAGEMENT (EUROPE) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

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DIRECTORS AND PROFESSIONAL ADVISORS

DIRECTORS

G L Biggs (resigned 30 June 2018)
C.A.Jones
S.K.Evans (appointed 30 June 2018)

REGISTERED OFFICE

7 Albemarle Street
London
W1S 4HQ

BANKERS

Citibank N.A. London Branch

SOLICITORS

Eversheds Sutherland,
One Callaghan Square,
Cardiff.
CF10 5BT

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Kingsway
Cardiff
CF10 3PW

STRATEGIC REPORT
Year Ended 31 December 2018

The directors present the strategic report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is a wholly owned subsidiary of Tenneco Inc. and continued to provide financing and foreign exchange management facilities for various undertakings within the Tenneco Inc. group.

The term "Tenneco group undertakings" used throughout these financial statements refers to Tenneco Inc. and its subsidiary undertakings.

The directors consider the reserves and gearing of the company to be satisfactory and expect the current position to continue in the future.

The profit for the financial year of £1,652,000 (2017: £1,613,000) has been transferred to reserves.

STRATEGY AND FUTURE DEVELOPMENTS

The company's principal objective and strategy focuses on continuing to provide effective finance and foreign exchange management facilities to various undertakings in the Tenneco Inc. group.
The main purpose of the cash pooling arrangements is notionally to consolidate the cash balances of group companies with the cash pool bank (both negative and positive) and thereby reduce the external borrowing costs of the group.

The contractual arrangements between TMEL and the cash pool participants is designed so that the cash pool participants are entitled to share in the benefit to TMEL. This is referred to as the debit margin rebate agreement and is intended to provide TMEL with a mark-up on relevant costs of 5%.

Under the terms of the agreement, TMEL acts as Agent for the cash pool participants, interest paid to / from participants is routed via TMEL header accounts on a currency by currency basis.

Citibank charges / pays interest at its currency base (risk free) rates to TMEL currency header accounts on the basis of aggregate net balances for the header and all participant accounts in a given currency. Citibank also charges risk margin on the net USD equivalent of all accounts in the pooling arrangement (overdraft) to the USD header account. Citibank pays no interest on aggregate USD surpluses.

TMEL in turn sets rates by which participants pay or receive interest to / from respective currency header accounts on an arm's length basis.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and execution of the Tenneco Inc. group's strategy, of which this company forms a part, are subject to a number of risks, principally relating to market competition both from a national and international perspective. The activities of the company are closely linked to the overall activities of the Tenneco Inc. group, and business risks are reviewed regularly by the directors in the context of group strategies with appropriate processes being put in place to monitor and mitigate their impact.

STRATEGIC REPORT
Year ended 31 December 2018

FUTURE DEVELOPMENTS

As first announced in the second quarter of 2018, Federal-Mogul LLC was acquired by Tenneco Inc on 1 October 2018. The acquisition accelerates long term value creation by creating two product-focused, purpose-built industry leaders in their respective markets. The planned separation of the combined business into two independent, publicly traded companies through a tax-free spin- off to shareholders will establish an 'Aftermarket and Ride Performance' company and a 'Power train' technology company. The aftermarket and ride performance company will launch in the second half of 2019. This new organisation "DR1V" will trade in after-market parts and ride performance equipment.

Tenneco Management (Europe) Limited will provide the treasury function for "DR1V" in the same capacity as at present for Tenneco Inc. As such, ownership of Tenneco Management (Europe) Limited will transfer from Walker Limited to the "DR1V" Parent holding company by 1 July 2019.

KEY PERFORMANCE INDICATORS

The company regards net interest, the level of net retained income and debt/equity ratio as key measurements of the effectiveness of the company's operations.

	2018 £'000	2017 £'000
Net interest, inclusive of foreign exchange profit	2,670	2,832
Profit for the financial year	1,652	1,613
Debt/Equity Ratio	0.11	0.17

The calculation of the debt/equity ratio is detailed in note 11.

The Tenneco Inc. group manages its operations on a divisional basis. For this reason the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business.

The directors consider the debt/equity ratio of the company, given the nature of its business as a non-bank finance company to the Tenneco Inc. group, to be within acceptable levels.

The Directors Strategic report of Tenneco Management (Europe) Limited was approved by the board of directors and signed on its behalf on 30th May 2019.

C A Jones
Director

DIRECTORS' REPORT
Year ended 31 December 2018

The directors present their annual report on the affairs of the company, together with the audited financial statements and independent auditors' report, for the year ended 31 December 2018.

RESULTS AND DIVIDENDS
The profit for the financial year of £1,652,000 (2017: £1,613,000) has been transferred to reserves. A dividend payment of £NIL was paid to Walker Ltd during the year (2017: £NIL)

FUTURE DEVELOPMENTS

The strategy and future developments in the business are set out in the Strategic Report on page 2.

FINANCIAL RISK MANAGEMENT POLICIES

As a result of its normal business activities, the company is exposed to a variety of risks, including credit risk, liquidity risk, interest rate risk and foreign currency risk.

<u>Liquidity risk</u>

The company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk of damage to the company's reputation. The company also relies on its ultimate holding company, Tenneco Inc., to provide liquidity as and when required.

<u>Credit risk</u>

TMEL was directly exposed to credit risk during the year because its borrowers might have been unable to make interest payments and/or make repayments of loan principal on their borrowings from TMEL. If this had happened, TMEL may then have been unable to meet interest payments and/or loan principal repayments on its own borrowings. Prima facie this risk was significant given the size of TMEL's intra-group loan portfolio.

Furthermore, TMEL and its fellow cash pool participants were jointly and severally liable to Citibank in respect of their obligations under the cash pooling agreements. This meant that TMEL was in principle exposed to credit risk whenever a fellow cash pool participant had an overdrawn balance with the bank/s.

TMEL mitigated the risk by employing careful judgement in assessing the suitability of the borrower, TMEL's history of not suffering bad debt write off's support this. All loans were repayable on demand and or short term where TMEL assessed the loan as having a higher debt profile. Furthermore the risk is mitigated by the guarantees provided by Tenneco Inc. that it would make good any defaults suffered by TMEL on loans to group companies.

In terms of TMEL's credit exposure with banks, other than its cash pooling relationships these mainly consist of money market activities – intraday settlement exposures and forward foreign exchange positions and were all with major financial institutions with high credit ratings, and which were subject to banking regulation, and the credit risk attaching to these transactions was therefore low.

Thus, although TMEL was exposed to credit risk, the level of actual risk was low due to a combination of the above factors.

DIRECTORS' REPORT
Year ended 31 December 2018

FINANCIAL RISK MANAGEMENT POLICIES (continued)

Interest rate risk

The company's income comprises interest received/paid on inter-company loans and overnight deposits and overdrafts with banks. The company operates its inter-company loan portfolio denominated in several foreign currencies. Exposure to interest rates movement is minimised as the company both pays on all its loans and receives on all its offsetting investments a variable rate of interest, linked to transactional currency LIBOR or its equivalent.

Foreign currency risk

The company's primary exposure to foreign currency exchange risk results from inter-company loans made between Tenneco group undertakings and overnight deposits and overdrafts with banks. The company manages its foreign currency exchange risk using, within predetermined parameters, foreign currency purchase and sale contracts with terms of less than one year.

DIRECTORS

The directors who were in office during the year and up to the date of signing the financial statements were as follows:

G L Biggs	(resigned 30 June 2018)
C A Jones	
S K Evans	(appointed on 30 June 2018)

DISCLOSURE OF INDEMNITIES

The directors confirm under section 234 of the Companies Act 2006:

- at the time this directors' report is signed a qualifying third party indemnity provision (provided by the parent company, Tenneco Inc.) was in force for the benefit of all the directors of the company;
- for the financial year ending 31 December 2018 a qualifying third party indemnity provision (provided by the parent company, Tenneco Inc.) was in force for the benefit of all the directors of the company; and
- that there is no qualifying third party indemnity provision provided by the company for one or more directors of an associated company either on the date the directors' report is signed or in the last financial year.

GOING CONCERN

The directors have assessed that the company has adequate resources to counteract the current economic uncertainty. However, as the company is closely linked to the overall activities of Tenneco Inc. group, further considerations have been made. After making enquiries, the directors have formed a judgement at the time of approving the financial statements, that there is reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. In order to reach their decision, the directors reviewed the disclosures in the annual report of the ultimate holding company, Tenneco Inc.

DIRECTORS' REPORT
Year ended 31 December 2018

DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

INDEPENDENT AUDITORS

Pursuant to sections 485-488 of the Companies Act 2006 an elective resolution was passed dispensing with the requirement to appoint auditors annually. Therefore, PricewaterhouseCoopers LLP are deemed to continue as auditors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT
Year ended 31 December 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

On behalf of the Board

C A Jones
Director

30th May 2019

Independent auditors' report to the members of Tenneco Management (Europe) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Tenneco Management (Europe) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent auditors' report to the members of Tenneco Management (Europe) Limited (continued)

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

Independent auditors' report to the members of Tenneco Management (Europe) Limited (continued)

We have no exceptions to report arising from this responsibility.

Jonathan Bound (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

31 May 2019

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Administrative expenses		(547)	(841)
Finance income	4	5,671	5,308
Finance costs	5	(3,084)	(2,476)
Profit before tax	6	2,040	1,991
Income tax expense	7	(388)	(378)
Profit for the financial year		1,652	1,613
Total comprehensive income for the year		1,652	1,613

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Current assets			
Trade and other receivables	8	90,213	94,249
Cash		-	17,815
		90,213	112,064
Trade and other payables: Amounts falling due within one year	9	(9,590)	(33,093)
Net current assets		80,623	78,971
Net assets		80,623	78,971
Equity			
Called Up Share Capital	10	1	1
Share premium account		29,999	29,999
Retained earnings		50,623	48,971
Total equity		80,623	78,971

These financial statements on pages 11 to 32 were approved by the Board of Directors of Tenneco Management (Europe) Limited (Registered number 02989901) on 30th May 2019.

Signed on behalf of the Board of Directors

C A Jones
Director

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Note	Ordinary shares £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2017	10	1	29,999	47,358	77,358
Profit for the year		-	-	1,613	1,613
Total comprehensive income for the year		-	-	1,613	1,613
Balance as at 31 December 2017	10	1	29,999	48,971	78,971
Profit for the year		-	-	1,652	1,652
Total comprehensive income for the year		-	-	1,652	1,652
Balance as at 31 December 2018		1	29,999	50,623	80,623

Retained earnings represents the accumulated profits, losses and distributions of the company.

The share premium account represents consideration received in respect of the issuance of share capital in excess of the nominal value of that share capital, less any costs directly incurred in connection with the issue.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. GENERAL INFORMATION

Tenneco Management (Europe) Limited ("the company") is a private company limited by shares and it is incorporated in the United Kingdom. The address of its registered office is 7 Albemarle Street, London, W1S 4HQ. The registered number of the company is 02989901.

The principal activity of the company is to provide financing and foreign exchange management facilities for various undertakings within the Tenneco Inc. group.

2. STATEMENT OF COMPLIANCE

The individual financial statements of Tenneco Management (Europe) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, with the exception of forward exchange contracts that are disclosed at fair market value, and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in "Critical accounting judgements and key sources of estimation uncertainty" section included within this note.

b) Going concern

As described within the Directors' Report, the directors have formed a judgement, at the time of approving the financial statements, that there is reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Due to the nature of the company's business, turnover, cost of sales and gross profit do not have any meaningful equivalents and are therefore not shown in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. Tenneco Management (Europe) Limited is a qualifying entity as its results are consolidated into the financial statements of Tenneco Inc. which are publicly available.

As a qualifying entity, the company has taken advantage of the exemption from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102.

d) Foreign currency

(i) Functional and presentation currency
The company's functional and presentation currency is the pound sterling, the currency of the primary economic environment in which the company operates.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

e) Finance income

Finance income comprises interest income on bank deposits and on loans and receivables owed by other group undertakings and gains in the fair value of financial assets at fair value through profit or loss. Finance income is recognised as it accrues in the statement of comprehensive income, using the effective interest method.

f) Finance costs

Finance costs comprise primarily interest on amounts borrowed from financial institutions and from other group undertakings. Finance cost is recognised in the statement of comprehensive income using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

i) Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

<u>Non-derivative financial instruments</u>

Non-derivative financial instruments comprise cash and cash equivalents, loans and borrowings, other receivables and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value, and changes therein are recognised in profit or loss.

Derivative financial instruments

The company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the statement of comprehensive income when incurred.

A discounted cash flow analysis is performed. The fair value of forward exchange contracts is determined by using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. These instruments are classified at fair value through profit and loss upon initial recognition and changes in fair value of such derivatives are recognised in profit or loss as part of foreign exchange gain or loss.

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

All impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of comprehensive income.

Derecognition

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

Financial risk management

The company has exposure to the following risk in its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk
- foreign currency risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company through management procedures, aims to develop a disciplined and constructive control environment in which all parties understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the company if a group undertaking or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally on the company's receivables from banks and Tenneco group companies. For banking relationships, transactions are only entered into with major financial institutions that can be expected to fully perform under the terms of such agreement. For Tenneco group undertakings, the company relies on the support of its ultimate holding company, Tenneco Inc.

During the year, Tenneco Inc provided guarantees to the company for financing facilities provided to Tenneco group undertakings and for amounts deposited with CitiBank and given in pledge against bank borrowings by undertakings within the Tenneco group.

Guarantees

The company's policy is to provide financial guarantees only in respect of wholly-owned subsidiaries within the Tenneco group.

At 31 December 2018 amounts owed to the company by Tenneco group undertakings of £90,117,000 (2017: £92,843,000) and pledged bank deposits of £5,559,000 Overdrawn (2017: £17,815,000) were guaranteed by Tenneco Inc.

At 31 December 2018 and 2017, a guarantee in respect of premises leased by Tenneco Automotive UK Limited, a Tenneco group undertaking, for £20,000 per annum was outstanding.

At 31 December 2018 and 2017, a guarantee in respect of pension obligations owed by Tenneco Automotive UK Limited to the Tenneco Automotive (UK) Limited Pension Scheme was outstanding. The directors' estimate, based on information from the Scheme's actuaries, of the guarantee amounts to Nil (2016: £5.1 million) at the reporting date.

At 31 December 2018 a guarantee in respect of premises at Bromford Gate, Erdington, Birmingham leased by Tenneco Automotive UK Limited, a Tenneco group undertaking, for £415,877 per annum (2017 £415,877 p.a.) was outstanding.

At 31 December 2018 and 2017, two guarantees in respect of pension obligations owed by Tenneco-Walker (U.K.) Limited, a wholly-owned Tenneco group to the Walker Group Executive Retirement Benefits Scheme and the Walker Group Employee Benefits Scheme were outstanding. The directors estimate , based on information from the scheme's actuaries, of the guarantee amounts for the Walker Employee Benefits Scheme is £17.123 million (2017: £28.1m) and for the Walker Executive Retirements Benefits Scheme £Nil (2017 Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Financial risk management (continued)

<u>Liquidity risk</u>

Liquidity risk is the risk that the company will not be able to meet its financial obligations -as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk of damage to the company's reputation. The company also relies on its ultimate holding company, Tenneco Inc., to provide liquidity as and when required.

The company buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All transactions are carried out within the guidelines set by the Tenneco Inc. group policies that have been adopted by the company. The company does not apply hedge accounting.

<u>Currency risk</u>

The company is exposed to currency risk on financings and borrowings denominated in a currency other than its pound sterling functional currency. The primary currencies in which these transactions are denominated are US Dollars, Canadian Dollars, Australian Dollars and Japanese Yen. Exchange exposures are managed within the approved policy parameters utilising forward foreign exchange contracts and foreign currency swaps.

In respect of monetary assets and liabilities denominated in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying and selling currencies at spot rates when necessary to address short-term imbalances.

<u>Interest rate risk</u>

The exposure to interest rate risk is covered by forward contracts. Any imbalance between interest income and expense in foreign currencies is covered by forward contracts. The company does not enter into interest rate swaps.

j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised in the statement of comprehensive income.

k) Critical judgments and estimates in applying the accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Critical judgments and estimates in applying the accounting policies (continued)

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The directors consider that there are no significant judgements or key sources of estimation uncertainty in the preparation of these financial statements.

4. FINANCE INCOME

	2018 £'000	2017 £'000
Interest on bank deposits	4,931	3,912
Interest on amounts owed by Tenneco group undertakings	410	887
Foreign Exchange Gains	330	508
	5,671	5,308

Interest rates on bank deposits are at overnight market rates based on the transactional currency LIBOR or an equivalent rate.

Interest rates on loans included in amounts owed by Tenneco group undertakings are set quarterly based on the transactional currency LIBOR or an equivalent rate.

5. FINANCE COSTS

	2018 £'000	2017 £'000
Interest on bank loans and overdrafts	(84)	-
Interest on amounts owed to Tenneco group undertakings	(2,837)	(2,008)
Foreign Exchange Loss	(163)	(468)
	(3,084)	(2,476)

Interest rates on loans included in amounts owed by Tenneco group undertakings are set quarterly based on transactional currency LIBOR.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2018 £'000	2017 £'000
The analysis of auditors' remuneration is as follows:		
- Fees payable to the company's auditors for the audit of the company's annual financial statements	35	34
Total audit fees	35	34
Total non-audit fees	-	-

The Company has only 2 employee, other than directors (2017: one), who received remuneration from this company during the year.

Tenneco Management (Europe) Limited paid Directors remuneration to the amount of £34,837 in respect of services as a director to the company (2017: NIL. Directors remuneration paid by subsidiary company in 2017).

7. INCOME TAX EXPENSE

a) The tax charge comprises:

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax	388	-
Payment for group relief	-	384
	388	384
Foreign tax	-	-
Current tax charge for year	388	384
Adjustments in respect of prior years	-	(6)
Income tax expense	388	378

The company has no unprovided deferred tax assets or liabilities that should be recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

7. INCOME TAX EXPENSE (CONTINUED)

b) No tax charge/ (credit) is required to be included in other comprehensive income

c) Reconciliation of tax charge

The tax assessed for the year is equal to (2017: higher) that resulting from applying the standard rate of corporation tax in the UK: 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before income tax	2,040	1,990
Tax at 19% thereon (2017: 19.25%)	388	384
Effects of:		
Overseas taxes suffered	-	-
Current tax charge for year	388	384
Adjustments in respect of prior years	-	(6)
Total tax charge	388	378

d) Factors affecting future tax charges

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Therefore the standard rate of corporation tax for the year ended 31 December 2018 is 19% (2017: 19.25%).

Subsequently, the Finance Act 2016 which was substantively enacted on 15 September 2016 included further legislation to reduce the main rate of corporation tax to 17% from 1 April 2020.

The above changes to the rate of corporation tax will impact the amount of future cash tax payments to be made by the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

8. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Amounts falling due within one year		
Amounts owed by group undertakings		
- Loans and receivables	90,169	93,758
- Derivative financial instruments	23	-
Amounts owed by third parties		
- Other receivables	21	491
	90,213	94,249

The fair value of the above items is not considered to be materially different to their carrying value.

The company's principal financial assets are bank balances, derivative financial instruments and amounts owed by group undertakings.

Amounts owed by group undertakings are made under long term credit agreements. None of the amounts disclosed are past due or impaired.

The other classes within trade and other receivables do not contain impaired assets nor items past due date.

9. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Bank loans and overdraft	5,041	-
Amounts owed to group undertakings		
- Loans and payables	3,523	31,060
- Group relief	383	1,521
Corporation tax	263	314
Amounts owed to third parties		
- Other taxation and social security	68	-
- Derivative financial instruments	-	42
- Other payables	312	156
	9,590	33,093

The fair value of the above items is not considered to be materially different to their carrying value.

More information about the company's exposure to interest rate, foreign currency and liquidity risk is disclosed in note 12. Details of security given for any debts is disclosed in note 12.

10. CALLED UP SHARE CAPITAL

	2018 £	2017 £
Allotted, issued and fully-paid:		
602 (2017: 602) ordinary shares of £1 each	**602**	602

11. GEARING RATIO

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The company's directors review the capital structure on a monthly basis. As part of this review, the directors consider the cost of capital.

Net debt is calculated as total borrowings less cash and cash equivalents. Equity is "equity" as shown in the statement of financial position.

During 2018, the company's strategy, which is unchaned is to maintain a gearing ratio of less than 8:1, which was in the directors' view an acceptable level for a non-bank finance company. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 £'000	2017 £'000
Bank loans and overdrafts	5,041	-
Amounts owed to Tenneco group undertakings	3,523	31,060
Total borrowings	8,564	31,060
Less: cash	-	17,815
Net debt	8,564	13,245
Total equity	80,613	78,971
Debt: Equity Ratio	0.11:1	0.17:1

The company is not subject to externally imposed capital requirements.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS

Categories of financial instruments	2018 £'000	2017 £'000
Financial assets that are debt instruments measured at amortised cost:		
Amounts owed by group undertakings		
- Loans and receivables	90,169	93,758
Amounts owed by third parties		
- Other receivables	21	491
Cash	-	17,815
	90,190	112,064
Financial assets/(liabilities) at fair value through profit or loss:		
Derivative instruments	23	(42)
Financial liabilities measured at amortised cost:		
Bank loans and overdrafts	5,041	-
Amounts owed to group undertakings		
- Loans and payables	3,523	31,060
- Group relief	383	1,521
Amounts owed to third parties		
- Other payables	380	470
	9,327	33,009

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency exposure

The company's exposure to foreign currency risk was as follows based on notional amounts in local currency.

	CAD000's	AUD000's	EUR000's	JPY000's	USD000's
31 December 2018					
Cash	12	(48)	1,927	(15)	(113,073)
Receivables/(Payables) from related parties	-	-	(3,689)	-	2
Payable to related parties	-	-	-	-	-
Other receiveable/(Payables)	(80)	(48)	516	(2,162)	43
Gross statement of financial position exposure	(68)	(96)	(1,246)	(2,177)	(113,028)
Forward exchange contracts	(1,990)	-	515	-	176
Net exposure	(2,058)	(96)	(731)	(2,177)	(112,852)

	CAD000's	AUD000's	EUR000's	JPY000's	USD000's
31 December 2017					
Cash	12	(53)	7,269	(1,527)	(109,105)
Receivables/(Payables) from related parties	-	-	(7,225)	-	-
Payable to related parties	-	-	-	-	-
Other receivable/(Payables)	(90)	(54)	563	(1,725)	38
Gross statement of financial position exposure	(78)	(107)	607	(3,252)	(109,067)
Forward exchange contracts	(2,000)	-	(4,487)	-	325
Net exposure	(2,078)	(107)	(3,880)	(3,252)	(108,742)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity analysis

The company is mainly exposed to the currency of Euro, Australia (Australian dollar), Japan (Japanese yen), Canada (Canadian dollar) and the United States of America (US dollar).
The following table details the company's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies. The sensitivity only includes outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in the foreign currency rates. Additionally, it assumes a positive equal and opposite offset on the FX forwards.

A positive number below indicates an increase in profit where Sterling strengthens 10% against the relevant currency. For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would have the opposite sign.

	US Dollar impact		Euro impact	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Statement of comprehensive income	8,041	7,316	60	313

	Japanese Yen impact		Canadian Dollar impact	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Statement of comprehensive income	1	2	108	111

The following significant exchange rates applied during the financial year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
AUD	1.78770	1.69653	1.80927	1.73044
CAD	1.72825	1.69135	1.74041	1.69889
EUR	1.12899	1.14383	1.11238	1.12580
JPY	146.658	145.742	139.748	152.345
USD	1.33024	1.30605	1.27590	1.35130

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

Changes to the Sterling interest rates will have an impact to the level of profit generated. The company estimates that a 100 basis point increase in Sterling interest rates would have resulted in the following increase in profit.

	2018 £'000	2017 £'000
Statement of comprehensive income	10,040	9,470

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2018 £'000	2017 £'000
Amounts owed by Tenneco group undertakings	90,169	93,758
Other receivables	21	491
Loans and receivables	90,190	94,249
Cash	-	17,815
	90,190	112,064

There is no impairment loss recognised through the statement of comprehensive income.

For banking relationships, transactions are only entered into with major financial institutions that can be expected to fully perform under the terms of such agreement.

During the year, Tenneco Inc provided a guarantee for amounts deposited with RBS and given in pledge against bank borrowings by Tenneco group undertakings under the arrangement. At the balance sheet date, the company has deposited at RBS £NIL (2017: £NIL) and at Citibank London £5,559,000 Overdrawn (2017: £17,815,000).

For loans to Tenneco group undertakings, the company relies on the support of its ultimate holding company, Tenneco Inc, who has issued a parental guarantee for the financing facilities provided to undertakings within the Tenneco group.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

The following are the contractual maturities of non-derivative financial liabilities, excluding estimated interest payments and excluding the impact of netting agreements:

	Carrying value £'000	Contractual Cash flows £'000	On demand £'000	0-3 months £'000	3-12 months £'000
31 December 2018					
Non-derivative financial liabilities					
Amounts owed to Tenneco undertakings	3,421	3,421	-	-	3,421
Amounts owed to Tenneco undertakings for group relief	102	102	-	-	102
Other payables	1,015	1,015	-	1,015	-
	4,538	4,538	-	1,015	3,523

	Carrying value £'000	Contractual Cash flows £'000	On demand £'000	0-3 months £'000	3-12 months £'000
31 December 2017					
Non-derivative financial liabilities					
Amounts owed to Tenneco undertakings	31,060	31,060	-	-	31,060
Amounts owed to Tenneco undertakings for group relief	1,521	1,521	-	-	-
Other payables	470	470	-	470	-
	33,051	33,051	-	470	32,581

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The following are the contractual maturities of derivative financial instruments:

	Carrying value £'000	Contract-ual Cashflow £'000	On demand £'000	0-3 months £'000
31 December 2018				
Derivative financial liabilities				
Other forward exchange contracts:				
Outflow	-	2	-	2
Inflow	(23)	(25)	-	(25)
	(23)	(23)	-	(23)

	Carrying value £'000	Contract-ual Cashflow £'000	On demand £'000	0-3 months £'000
31 December 2017				
Derivative financial liabilities				
Other forward exchange contracts:				
Outflow	42	75	-	75
Inflow	-	(33)	-	(33)
	42	42	-	42

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The fair values of financial assets and liabilities are equal to their carrying amounts.

The directors have classified all financial instruments held at fair value as Level 2 under section 11 and 12 of FRS 102.

The directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

13. RELATED PARTY TRANSACTIONS

The company has taken the exemption as provided by paragraph 33.1A of FRS 102 and does not to disclose transactions with Tenneco Inc. or other Tenneco group companies, where 100% of the company's voting rights are controlled within the group, and the consolidated financial statements of the ultimate parent company are publicly available.

Key management includes only the directors. Refer to note 6 for disclosure regarding key management compensation.

14. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company is a wholly owned subsidiary of Walker Limited which is its immediate parent. Its ultimate parent and controlling company is Tenneco Inc., a company incorporated in the State of Delaware, United States of America.

The largest and smallest group in which the results of the company are consolidated is that headed by Tenneco Inc. The consolidated financial statements of this group are available to the public, and may be obtained from Tenneco Lake Forest, Illinois, USA.