

Federal-Mogul Corporation (FDML)



JOSÉ MARIA ALAPONT has been President, Chief Executive Officer and a Director of Federal-Mogul Corp. since March 2005. Mr. Alapont served as Chairman of the board of directors of the company from 2005 to 2007. He has more than 35 years of global leadership experience in both vehicle manufacturers and suppliers with business and operations responsibilities in the Americas, Asia Pacific, Europe, Middle East and Africa regions. Prior to joining Federal-Mogul, from 2003 to 2005 Mr. Alapont was CEO and a member of the board of directors of Iveco, the commercial vehicle company of the Fiat Group. He previously served in various key executive positions at Delphi Corporation, a global automotive supplier from 1997 to 2003. He began at Delphi as Executive

Director, overseeing international operations. In 1999 Mr. Alapont was named a Vice President of Delphi Corporation and President of Delphi Europe, Middle East and Africa, and became a member of the Delphi Strategy Board, the company's top policy-making group. In 2003 Mr. Alapont was named President of Delphi's international operations, and Vice President of sales and marketing. From 1990 to 1997 Mr. Alapont served in several executive roles and was a member of the Strategy Board at Valeo, a global automotive supplier. He started at Valeo as Managing Director of engine cooling systems, Spain. In 1991 Mr. Alapont was named Executive Director of Valeo's worldwide heavy-duty engine cooling operations. In 1992 he became Group Vice President of Valeo's worldwide clutch and transmission components division. He was named Group Vice President of the company's worldwide lighting systems division in 1996. Mr. Alapont's automotive career began in 1974 at Ford Motor Company. Over the course of his 15 years with Ford, starting at Ford of Spain, Mr. Alapont progressed through different management and executive positions in quality, testing and validation, manufacturing and purchasing positions at Ford of Europe. A native of Spain, Mr. Alapont earned degrees in industrial engineering from the Technical School of Valencia in Spain and in philology from the University of Valencia in Spain.

SECTOR — TRANSPORTATION

(ANE615) **TWST:** I'd like to begin by asking you to outline the history of Federal-Mogul and give an overview of your business.

Mr. Alapont: Federal-Mogul is one of the long-standing companies in the industry; it started in 1899 and has a long history. In the last few years, the company grew very fast through acquisitions. But one of those acquisitions resulted in major asbestos liabilities for the company.

TWST: That was in the late 1990s?

Mr. Alapont: Correct, in 1998 to be precise. It was T&N, a British group which used asbestos in their products. In 2001 the company filed for Chapter 11 and U.K. administration, with the vast majority of the legal entities in bankruptcy in the United Kingdom.

TWST: What happened?

Mr. Alapont: During a period of time, four years, the company tried several times to emerge unsuccessfully. I joined the company in March 2005 and one year later we managed to take out of bankruptcy Federal-Mogul in all legal entities under U.K. administration. We did the same thing at the end of 2007 in the United States when Federal-Mogul emerged from Chapter 11. With that we started what we'll call a new Federal-Mogul, and we listed the company at this time on the NASDAQ under FDML. We have been, since then, developing our global strategies.

TWST: You've been trading with this ticker since 2008?

Mr. Alapont: Yes, since April 23, 2008.

TWST: Are there any pending issues from that asbestos litigation that investors should know about?

Mr. Alapont: None.

TWST: Another upshot of the time in bankruptcy is that your creditors wound up with a lot of equity. In particular, Carl Icahn owns or controls 75% of your common stock.

Mr. Alapont: To emerge from Chapter 11 without asbestos liabilities, the bankruptcy proceedings required that 50.1% of the company be awarded to an Asbestos Trust and the other 49.9% was distributed proportionately to other creditors. That is what we did on the 27 of December 2007. As a result of that, the equity went effectively to creditors that were mostly bondholders and to the Asbestos Trust. During the first quarter 2008, there was a transaction through which Icahn Group became as well the shareholder buying the 50.1% that was issued to the Asbestos Trust plus around 25% it received as a creditor. These transactions gave the Icahn Group the 75% of the shareholdings of the company.

TWST: So that was in the first quarter of 2008?

Mr. Alapont: Yes, first quarter of 2008.

TWST: For over a year, you've had this capital structure?

Mr. Alapont: Yes, since then a number of shareholders

that received stock as a result of being pre-emergence creditors have sold their positions and were replaced by natural equity holders, and we've been traded like a normal company with a public float of approximately 25% of the stock.

TWST: What kind of involvement does Icahn and his representatives have in the company? Do they have any operational presence?

Mr. Alapont: No, since they are the majority shareholders, they have the majority of the board members. Naturally we have as well the independent directors. Carl Icahn is the non-executive Chairman of the company. Therefore, the Icahn group does not have direct operational involvement in the company other than through their board oversight.

"Are we looking for acquisitions? The answer is yes. We are monitoring very closely potential acquisitions."

TWST: Let's talk about your operations then, particularly in this period since December 2007. I gather that cost reduction was your first focus.

Mr. Alapont: Not exclusively at the beginning.

TWST: Would you tell us what your focus was?

Mr. Alapont: To develop a world-class and strongly performing global company, a \$7 billion company with 106 manufacturing operations and 25 distribution centers in 36 countries. Also very important is that we have 16 globally networked technical centers around the world. Our main business is automotive, which represents around 90%, and then we also supply aerospace, industrial, marine, power generation and railroad markets. But what is very important, for four years — 2005, 2006, 2007 and 2008 — we have been a company operating and performing like a world-class company. That's fundamental, and that is what we wanted to come to because it's not that we waited to emerge from Chapter 11 to start performing. Within 30 days of joining the company, I got all the management together in April 2005, and I said, "We are going as a team, management and employees to drive Federal-Mogul like a world-class company, capable to generate sustainable global profitable growth. And in parallel, together with the CFO and the General Counsel we will take the company out of Chapter 11." And that is what we did. We started what we'll call new Federal-Mogul with the strategy for sustainable global profitable growth back in 2005. And during 2005, 2006, 2007 and 2008, we performed above the industry, growing every year the sales, growing every year the EBITDA, reducing every year the SG&A and generating every year strong free cash flow. When we emerged — first and second quarter of 2008, our first two quarters being back into the market as a non-Chapter 11 company — we had our absolute record quarters for sales and operating results. But then came the third and fourth quar-

ter last year, and as we all know, the financial markets and automotive industry went into an unprecedented recession. Despite that, still 2008 was one of our strongest-performing years. What happened is that we were one of the first, together with another couple of companies already in September 2008, to announce a new restructuring program. We did restructure the company during Chapter 11, as mentioned earlier. But we could see that we were heading towards this unprecedented recession and instead of enjoying the record first half in the history of the company, we went into a new restructuring. We announced that we were going to invest \$160 million in closing plants, accelerating our shift of capacity into best-cost countries and preparing the company for this "crossing of the desert" of the economic downturn. And also what is very important, protecting the core values of the company and making sure that whenever the markets come back, we were going to be able to be there in a more competitive, more efficient and more profitable way.

TWST: So you began that cost reduction program or restructuring, as you call it, in September of 2008?

Mr. Alapont: Correct.

TWST: Where does that stand today?

Mr. Alapont: We have also developed what we call a variable-cost company strategy, trying to make sure that our labor costs or capital expenditures, or any other element of the P&L and balance sheet are properly adjusted to the downturn that the markets and the industry have been having the last 12 months. During the last 12 months we have reduced around 11,000 positions, we have gone from 50,000 to 39,000 employees. We also have managed to restructure our capacity; we have moved a lot of capacity into the best-cost countries.

TWST: You've mentioned that Federal-Mogul is a global company, but aren't most of your operations in Europe and North America?

Mr. Alapont: We are definitely a global company. We are a North American corporation, but more than 60% of our revenue comes from outside North America. We are a company based in leading technology and innovation — we don't have what is called within the industry "commodity products." We have four business units — 30% of our revenue is powertrain energy, another 15% is powertrain sealing and bearings; we have around 15% in vehicle safety and performance. All that makes around 60% in original equipment, then 40% or so is in aftermarket. In terms of how the business is distributed, around 60% of revenue is in light vehicles and passenger cars markets; 30% is for commercial vehicles, heavy duty and off-road; and there is an additional 10% that is non-automotive, including power generation, industrial, transportation, railways, marine, aerospace. We have a similar structure in terms of headcount and distribution of the assets aligned with the above market segments.

TWST: Let's talk about what happened in this unprecedented downturn in the automotive market. It's been suggested that there are simply too many manufacturers. What is your view on the industry's over-capacity and how are you positioning your company for the future of the industry?

Mr. Alapont: I have 35 years in this industry, starting in 1974. Half of my professional career I have been a vehicle manufacturer. I mean Ford, GM, Fiat — my last position was CEO of Fiat

Investors Brief



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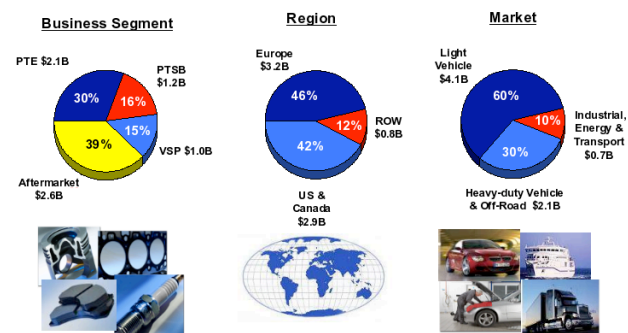
Vice President and Treasurer

Business Description:

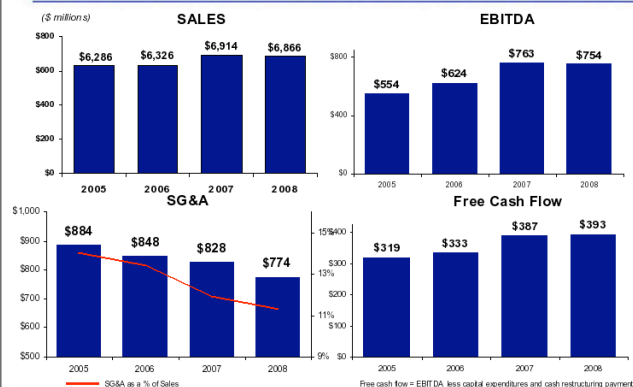
Federal-Mogul Corporation is a leading global supplier of powertrain and safety technologies, serving the world's foremost original equipment manufacturers of automotive, light commercial, heavy-duty, industrial, agricultural, marine, rail, off-road and industrial vehicles, as well as the worldwide aftermarket. The company's leading technology and innovation, lean manufacturing expertise, as well as marketing and distribution deliver world-class products, brands and services with quality excellence at a competitive cost. Federal-Mogul is focused on its sustainable global profitable growth strategy, creating value and satisfaction for its customers, shareholders and employees. Federal-Mogul was founded in Detroit in 1899. The company is headquartered in Southfield, Michigan, and employs nearly 39,000 people in 36 countries. Visit the company's Web site at www.federalmogul.com.

Diversified Global Business

2008 Global Sales \$6.9B



Strong Financial Performance



Company at a Glance

2008 Sales: \$6.9 Billion

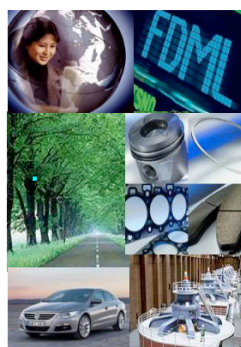
Employees: 39,000 at June 30, 2009

Global Locations: 106 Manufacturing and 25 distribution sites operating worldwide in 36 countries

Research & Development: 16 Globally-networked technology centers in North America, Europe and Asia

Key Industries: Automotive, aerospace, heavy-duty, industrial, marine, power generation, railroad

Ticker Symbol: NASDAQ: FDML



Federal-Mogul Today

- Strong financial and operating performance, favorable financing package and solid capital structure
- Diversified leading global business with OE and Aftermarket revenue independent of any single customer, market or product line. No single customer accounts for more than 5% of sales.
- Long-term customer relationships built on excellence in products, services and operating environment
- Leading technology and innovation in powertrain, vehicle and industrial products for fuel economy, alternative energies, environment and safety systems
- World-class engineering, manufacturing and supply chain with cost competitive footprint

Driving Sustainable Global Profitable Growth by anticipating customer and market expectations



Iveco, and then half the other 17 years, I have been a supplier for the industry with Valeo, a European group, Delphi and now Federal-Mogul. Therefore, I'll share with you my views and you can put into perspective the fact that, as I said, I have been a vehicle manufacturer and supplier. Consolidation of the vehicle industry has been going on now for quite some time. The auto industry, if you look into North America, Europe and Japan, has been quite consolidated. Still, you can always have additional consolidation and of course there are other markets like China that still are going through consolidation. Regarding the supply industry, it is very different from product to product and among different technologies, and is going to keep having consolidation mostly because this present recession has put a lot of strain on the supplier base. A number of companies will not make this crossing of the desert. Especially because unless like Federal-Mogul you are restructuring in line with the downturn, a supplier cannot survive the drop in revenues associated with the recession.

TWST: A number of suppliers you are saying?

Mr. Alapont: Yes, I don't think that all the suppliers that today we see in the supplier base in the auto industry will complete the restructuring necessary to offset the impact of the recession. Therefore, in this situation you are going to see further consolidation; it's not going to be a choice. It will be consolidated not only because the volumes have dropped — although now we see that volumes are leveling at a much lower level than in 2008, and we are expecting that from now on the market will show an improvement. But whoever doesn't have two fundamentals — one is leading technology and innovation, that means technologies that are core for the industry; second, having completed in parallel the required restructuring of the company in terms of labor cost, manufacturing capacity, being in the right place with that capacity — whoever has not done this drive for technology and innovation, and this drive for industrial efficiency even when the volumes come back, whenever they come back, will have a hard time to survive. Therefore, yes, there's going to be consolidation. The other important thing is that companies like Federal-Mogul are very strongly placed in the areas that are core and strategic for the industry — energy, emissions, safety. But in the areas that are not strategic and are becoming more of a commodity, there's going to be even a tougher competition coming from all the emerging countries.

TWST: What are you doing leading edge in non-commodity areas? Do you have R&D in alternative powertrain?

Mr. Alapont: We have four business units. Three are based in original equipment — OE and OES — and then supply as well to our fourth business unit that sells replacement parts to distributors in the global aftermarket. Federal-Mogul has two fundamental areas of activity, one that is the Federal-Mogul original equipment that goes to all the vehicle manufacturers, whether they are passenger cars, heavy duty, off-road and non-automotive, and then the aftermarket, where we have more than 20 worldwide leading brands that are either number one or number two in North America, Europe and in Asia Pacific. In all the products we produce for OE and OES, either we are number one or number two in the world. We supply to all the main vehicle manufacturers and aftermarket groups in the world to the point that we don't depend on any customer for more than 5% of our total revenue. That gives you an idea of how strong we are in our customer portfolio. We are leaders,

for example, inside the combustion chamber where you generate the energy. There we are leaders in pistons and rings, ignition, valve seats, guides and cylinder liners. In the rest of the engine, we have a similar leading position on everything that reduces the friction in the movement of the engine and the transmission, like bearings and dynamics seals. We also have a leading position in the sealing technologies for both engine and transmission. Further, in braking system we are leaders in friction materials. We are also very strong in areas of chassis components, windshield wipers and other products that are more aftermarket oriented. Therefore, we are very instrumental in meeting the requirements to improve fuel economy and emissions with better efficiency and performance both in the combustion chamber and in the low friction components to reduce emissions. We have a relatively small group of competitors that shows that the company is not a commodity manufacturer but instead a technology innovator.

"We are definitely a global company. We are a North American corporation, but more than 60% of our revenue comes from outside North America."

TWST: You mentioned you think some of your competitors won't "cross the desert," as you put it. Do you anticipate you may make an acquisition? Do you feel that your company is right-sized for the next 18 to 36 months?

Mr. Alapont: That is a very interesting question because right now, as you know, the auto industry is going through a very hard time, not only on volumes and financial results but on cash because this is an industry that employs a lot of cash. Some people say it burns a lot of cash. Federal-Mogul has been generating between 2005 and 2008 consistently more than \$300 million of annual free cash flow that we describe as EBITDA minus cap ex minus restructuring. During these four years, an average of more than \$350 million positive cash per year. And despite how tough, how really hard it has been this year, in the first quarter we have consumed cash, but in the second quarter we already came back to have positive cash flow in the quarter. We were one of the very few companies that were in the second quarter profitable on the net and cash positive. That means we are a company that generates cash. We are a company that has more than \$1.2 billion liquidity, out of which \$700 million are cash and more than \$500 million is in an undrawn revolver. And that's another good statistic: 18 months through this unprecedented recession, and we never have touched the revolver. Are we looking for acquisitions? The answer is Yes. We are monitoring very closely potential acquisitions. This is ongoing since there will be good opportunities in the future. We have looked in-depth at a couple of opportunities; we decided at the end of the day they were not the right acquisitions. What should we be looking for? We are looking always to expand either our product portfolio

or market shares. In terms of market shares, we are already number one or number two in all the markets we serve. Therefore, there is opportunity although naturally sometimes there are certain limitations because of market regulations. Regarding our alternative powertrain technology and vehicle safety portfolio, we will be always interested in products that are high-tech, that are technology- and innovation-driven. Then we will develop them because we know that leading technology and innovation together with globalization is the strength in the industry, and that is where you can make the right investments. We are quite confident that within the next six to 12 months there's going to be good opportunities, and we will try to capitalize on the best ones.

"That is the challenge: The vehicle industry will keep growing because there are literally hundreds of millions of people that are potential customers, that start having now the power to buy vehicles in these emerging countries."

TWST: Are you looking into electric powertrains and how are you positioning the company for what you see going on in the green sector?

Mr. Alapont: I have already mentioned to you that we are very much in the sector of energy efficiency and reduction of vehicle emissions. What we are not in — yet — is the electrification of the vehicle. We fully agree that while the 20th century was essentially based on petrol energy, the 21st has become one of alternative energies, whether it's a combination of gasoline, diesel, compressed natural gas, biofuels, electrical and fuel cells. We are very present with technology for most of these energies, and now we'll start progressively developing our activities in the electrification of the vehicles. I just came last week from the Frankfurt Motor Show, and some vehicle manufacturers for 2020 are talking about annual percentage volumes of 2% to 10% electrical vehicles in their vehicle lineup. The fact is that electrification will come progressively. Therefore, a scenario that we have been focusing on for a while is to look for opportunities in companies that have the right technologies where we can invest and then globalize those activities, and integrate the technology within Federal-Mogul. As you probably know, there is a lot of talk about electrical vehicles, electrification of the vehicle, but still there is a lot of alternatives without having a final path on which ones will be the ones that will come to the mainstream. On hybrids, for example, we have already the combustion engine products where we have a leadership position. Regarding electrification — at the right time, with the right strategy, yes. We have the capital, we have the global experience, and we have as well the world platforms where we operate. To give you an idea, we have products on more than 700 worldwide powertrains that are in more than 250 vehicle platforms. We have very strong experience into what it means to take technologies into the powertrain energy arena and bring it across to the global markets.

TWST: Let's look back at the last year. How did the Cash for Clunkers program affect your business? Did it have something to do with your becoming profitable in this year's second quarter?

Mr. Alapont: I know that cash for clunkers has been on the front page and had a lot of debate. First of all clunkers, or stimulus programs, is new in the States. It's not new in other parts of the world; it's been done for a number of years in Europe for instance. The other thing is that you need to put in context the numbers: Clunkers have represented around a million vehicles in the U.S. and the market in North America is a 250 million-vehicle market. The other thing is that the way it has been developed, if a U.S. family has, let's say, three cars, it has been affecting probably more the second and third car than the first and the second. At the same time, you may wonder how that could affect the aftermarket where we are leaders. Yes, that could affect the aftermarket, but because we were in a recession, probably this second or third car were not maintained with the same intensity that they used to be in the past. But then all over, it is evident that these stimulus packages have given fresh air for sales. You are going to see probably still in September that there is — with no clunkers program anymore — some sort of psychological impact with people saying, "Well, I should've but I didn't," etc. But things will go back to the real demand level and overall these programs have not had a major impact into either our performance, revenues or aftermarket programs. Sometimes these could have an impact here or there, but not material.

TWST: You have been fairly concentrated in North America and Europe up to now. How important are India, China and other emerging markets?

Mr. Alapont: I'd like to clarify that from the very beginning, we are a global company, not just concentrated in Europe and North America. Already 12% of our global revenue comes from the emerging markets — that was last year. With what happened this year in the U.S. and Europe, that number will keep increasing. Since you mentioned two countries, we are market leaders with our technology present across all main customers both in China and India. China and India represent our fastest-growing markets. We just opened our newest technical center in Shanghai. We have eight factories and produce all our main product lines in China, most of them are produced as well in five sites in India. We also have a major technical center in Bengaluru. Our activities in China and India keep growing with the markets. What is more important, to give you an idea, in India five years ago we had a minority shareholder position in our subsidiary in India of 24% — now we are at 75%. Our business is now near \$250 million and we are number one in all our products. In China we have two plants in Qingdao for our powertrains, we have two plants in Shanghai for bearings and chassis, in Nanchang for sealing systems, in Wuhan for friction, and we have plants for rings in Anqing. We are a very global company, and we produce all our product range in the three major regions: Americas, Western and Eastern Europe, and in Asia Pacific. We are now also developing plants in Russia. Regarding the technical centers, I mentioned already the new one recently opened in Shanghai and Bengaluru, but we also have important technical centers in the U.S., Germany, France and Brazil.

TWST: What's your view of the automotive markets

in the developed world over the next year or two?

Mr. Alapont: The market expectations are that North America will grow and Europe will be flat to slightly down, with China and India growing. North America is expected to grow during 2010 because we've come from a deep downturn in 2008 and 2009. The other thing that is important is that as an industry, it is clear that we have taken this unprecedented recession as hard as any, but also it is equally clear that the auto industry has been always capable to recover and to drive new growth. How fast will it take to go back to where we were is probably the most important question. Therefore it is fundamental to have the right strategy on leading technology and innovation, and the right restructuring in terms of how and where you place your capacity. Federal-Mogul had five years ago only 10% of our capacity in best-cost countries. We are already up more than 25%, and by next year we are aiming to have around one-third in the emerging countries, one-third in North America, one-third in Europe. We have in the last four or five years closed 25 plants in high-cost areas, and we have opened 15 new plants in best-cost locations. That is the challenge: The vehicle industry will keep growing because there are literally hundreds of millions of people that are potential customers, that start having now the power to buy vehicles in these emerging countries. There is going to be a potential for growth in selected markets. And that's why we have been investing in these eight plants in China, five in India, now two in Russia, the ones in South America and other developing markets, because it's an industry that has been undergoing a huge transformation while crossing the desert. However, with leading technology, innovation and the right strategy on global manufacturing footprint and supply chain management, you can keep generating sustainable global profitable growth.

TWST: Are there any other risks that you see on the horizon for your company in particular?

Mr. Alapont: The challenge is going to be always to keep the strength and the leadership that we have, both in original equipment with the vehicle manufacturers and in the aftermarket with our leading brands. That is why our strategy is to keep developing a

world-class company that is based on this leading technology and innovation, and is capable to generate sustainable global profitable growth. If we do that, we know that in the same way that we have over 18 consecutive quarters of strong performance, we can keep doing that. If we do so, the vehicle manufacturers and the aftermarket customers will keep relying on us for their strategies.

TWST: Is there anything else that you'd like to add for the benefit of those who are trying to understand your stock?

Mr. Alapont: We've talked to you about our leading technology and innovation. We've talked to you about our global portfolio deployment and why we have been one of the first ones to come back to profit and positive cash. It has been fundamentally because we have not been waiting for the markets to come back. We have engaged in a very tough restructuring. We have put in place a variable-cost company strategy. And that, together with all the actions on expenses, labor costs and SG&A has brought the company back, capable to perform at lower sales levels — and that is the key point. We have proven to the markets, to the shareholders, to the customers that despite the challenge for the industry, at the low levels of the second quarter we have been capable to deliver our performance. We have been able to have margins of more than 15%. We have been able to deliver EBITDA at around 10% and to generate positive cash. I think that could be the closing message of a company that believes that being world-class allows you to generate sustainable global profitable growth even in such tough times like the ones we are going through.

TWST: Thank you. (SGD)

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