IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	**Chapter 11**
	)	
Combustion Engineering, Inc.,	)	**Case No. 03-10495 (JKF)**
	)	
Debtor.	)	

NOTICE OF FILING OF ANNUAL REPORT, FINANCIAL STATEMENTS AND RESULTS OF OPERATIONS OF THE COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST FOR FISCAL YEAR ENDED DECEMBER 31, 2012

(For the Period January 1, 2012 to December 31, 2012)

PLEASE TAKE NOTICE that, on April 30, 2013, the Trustees of the Combustion Engineering 524(g) Asbestos PI Trust (the "Trust") filed the Annual Report, Financial Statements and Results of Operations of the Trust for Fiscal Year Ended December 31, 2012 (the "Annual Report") and its audited financial statements for the same period (the "Audited Financial Statements"). The Annual Report and the Audited Financial Statements are attached hereto as Exhibits "A" and "A-1."

Dated: April 30, 2013

Respectfully submitted,

THE HOGAN FIRM

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ATTORNEYS FOR THE COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

EXHIBIT A

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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	**Chapter 11**
	)	
Combustion Engineering, Inc.,	)	**Case No. 03-10495 (JKF)**
	)	
Debtor.	)	

ANNUAL REPORT, FINANCIAL STATEMENTS AND RESULTS OF OPERATIONS OF THE COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST FOR FISCAL YEAR ENDED DECEMBER 31, 2012

The Honorable Ken Kawaichi, Ret., Ellen S. Pryor and the Honorable Richard Neville, Ret., Trustees of the Combustion Engineering 524(g) Asbestos PI Trust (the "Trust"), created pursuant to Combustion Engineering, Inc.'s Plan of Reorganization, as Modified through October 7, 2005 (the "Plan"), submit this Annual Report, Financial Statements and Results of Operations of the Combustion Engineering 524(g) Asbestos PI Trust for Fiscal Year Ended December 31, 2012.

I. General

Combustion Engineering, Inc. ("Combustion Engineering") filed a voluntary petition for relief under Chapter 11, title 11 of the United States Code (the "Bankruptcy Code") on February 17, 2003. The United States Bankruptcy Court for the District of Delaware entered the Order Confirming (and Recommending Affirmance by the U.S. District Court) Debtor's Plan of Reorganization as Modified Through October 7, 2005 and Setting Bar Dates to File Certain Claims in Paragraphs 50, 51, 52, 53 and 73 on December 19, 2005 (the "Confirmation Order"). On March 1, 2006, the United States District Court for the District of Delaware entered its order affirming the Confirmation Order and Issuing Injunctions. The Effective Date of the Plan occurred on April 21, 2006. Pursuant to the Plan, Steven Kazan, Russell W. Budd, Brent Coon,

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John D. Cooney and Matthew P. Bergman are the members of the Trust Advisory Committee ("TAC") and David T. Austern is the Future Claimants' Representative ("FCR").

The Combustion Engineering 524(g) Asbestos PI Trust Agreement ("Trust Agreement") and the Combustion Engineering 524(g) Asbestos PI Trust Bylaws (the "Bylaws") require the Trustees to meet with the TAC and the FCR at least two times each calendar year, at regular or special meetings. In 2012, the Trust held regular meetings on February 29, 2012, May 16, 2012, October 3, 2012, and November 14, 2012. The Trust held special meetings on March 26, 2012 and April 10, 2012.

The Trustees generally held weekly Trustees' meetings throughout the year, usually by telephone.

Effective September 10, 2011, the Trustees named Ellen Pryor Managing Trustee for a one year term. Effective September 10, 2012, the Trustees named Hon. Richard E. Neville, Ret., Managing Trustee for a one year term.

The principal office of the Trust is located at 1105 North Market Street, Suite 1300, P.O. Box 8985, Wilmington, Delaware 19899. The Trust's administrative office is located at 400 N. Saint Paul Street, Suite 600, Dallas, Texas 75201.

In 2012, the Trust entered and/or continued service agreements with: Stutzman, Bromberg, Esserman & Plifka, a Professional Corporation (general counsel); Lain Faulkner & Co. P.C. (accountant and administrator); Verus Claims Services LLC (TDP Claims processing facility and claims administrator); Gilbert LLP (insurance counsel); Argy, Wiltse & Robinson, P.C. (auditor) (merged with BDO in 2013); Wilshire Associates (financial consultant); State Street Bank & Trust (custodian); AllianceBernstein LP (money manager); Northern Trust Investments, N.A. (money manager); Standish Mellon Asset Management Company LLC

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(money manager); State Street Global Advisors (money manager); Legal Analysis Systems (claims forecasting); and AON Risk Services Central, Inc. (insurance agent). The Trust retained local counsel as needed.

The Trust maintained liability insurance for the Trustees, the members of the TAC and the FCR.

II. Asbestos PI Claims

The Combustion Engineering 524(g) Asbestos PI Trust First Amended and Restated Asbestos PI Trust Distribution Procedures (effective September 16, 2009) (the "TDP"), the Combustion Engineering 524(g) Asbestos PI Trust Revised and Restated Procedures for Reviewing and Liquidating TDP Claims, the Combustion Engineering 524(g) Asbestos PI Trust Claim Form, and other claims-related forms and instructions are available at www.cetrust.org.

A. Payment Percentage, Maximum Annual Payment and Claims Payment Ratio

From inception of the Trust until May 1, 2012, the Payment Percentage was 48.33%. The Payment Percentage is subject to change pursuant to the TDP and the Trust Agreement if the Trustees, with the consent of the TAC and the FCR, determine that an adjustment is required. *See* TDP, Sec. 4.2. In making any such adjustment, the Trustees, the TAC and the FCR "shall take into account the best information available at the time." *Id.* In making this determination, the Trustees are directed to "base their determination of the Payment Percentage on current estimates of the number, types, and values of present and future TDP Claims and TDP Determined Claims, the value and liquidity of the assets then available to the [Trust] for their payment, all anticipated administrative and legal expenses, and any other material matters that are reasonably likely to affect the sufficiency of funds to pay a comparable percentage of full

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value to all holders of TDP Determined Claims." *Id.* The Trustees are further directed to "exercise common sense and flexibly evaluate all relevant factors." *Id.*

Pursuant to the TDP, in 2012, the claims forecasting advisors and consultants for the Trust and the FCR performed claims liabilities forecasts and presented the results of their studies and analyses to the Trustees, the TAC and the FCR for consideration in determining whether the Payment Percentage should be adjusted. As a result of these studies and analyses, effective May 1, 2012, the Trustees, after consulting with the TAC and the FCR, and with the consent of the TAC and the FCR, adjusted the Payment Percentage to 44%.

The Maximum Annual Payment for 2012 was $75,000,000.

Under the TDP, Claims Payment Ratios are 87% for Category A Claims (malignancy claims and severe asbestosis) and 13% for Category B Claims (other non-malignancy claims).

The Maximum Annual Payment and Claims Payment Ratios were applied as follows:

From 2011, the Trust carried $35,959,321 into 2012 for payment on Category A Claims and $5,138,514 for payment on Category B Claims.

For 2012, 87% of the Maximum Annual Payment of $75,000,000 was allocated to Category A Claims and 13% was allocated to Category B Claims, with payments as follows:

Category A Claims 87% =	$ 65,250,000
Carryover from 2011 =	$ 35,959,321
Total for 2012 =	$101,209,321
Paid in 2012 (net of refunds) =	$ 86,284,460
Carryover into 2013 =	$ 14,924,861
Category B Claims 13% =	$ 9,750,000
Carryover from 2011 =	$ 5,138,514

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Total for 2012 =	$ 14,888,514
Paid in 2012 (net of refunds) =	$ 14,881,197
Carryover into 2013 =	$ 7,317

A total of 108 liquidated Category A Claims and 17,497 liquidated Category B Claims remained in the FIFO Payment Queue (as that term is defined in the TDP) as of December 31, 2012.

B. Claims Statistics for the Fiscal Year Ending December 31, 2012

The Trust received 25,986 claims in 2012. The Trust liquidated and paid 15,335 claims for a total of $101,165,657. Below is further detail with respect to the claims received and paid by the Trust in 2012.

Total claims received in 2012:

Total Category A Claims received in 2012 =		8,580
Category A Claims submitted for Expedited Review	5,216	
Category A Claims submitted for Individual Review	3,364	
Total Category B Claims received in 2012 =		17,406
Category B Claims submitted for Expedited Review	15,268	
Category B Claims submitted for Individual Review	2,138	
Total claims received in 2012 =		25,986

Total claims paid in 2012:

Total Category A Claims paid in 2012 =		3,880
Category A Claims paid pursuant to Expedited Review	1,991	
Category A Claims paid pursuant to Individual Review	1,889	
Total Category B Claims paid in 2012 =		11,455

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Category B Claims paid pursuant to Expedited Review	11,220
Category B Claims paid pursuant to Individual Review	235
Total claims paid in 2012 =	15,335

Since inception of the Trust, the Trust has not approved 200,650 claims, including rejected claims, claims with un-cured deficiencies, and withdrawn and deferred claims. The number of claims in the FIFO Processing Queue (as that term is defined in the TDP) on December 31, 2012, totaled 4,798, of which 2,183 are Category A Claims and 2,615 are Category B Claims.

III. Compensation and Expenses of Trustees

Under Section 5.5(c) of the Trust Agreement, the Trust reports to the Court the amount of compensation and expenses paid to the Trustees. The Trust refers the Court to the Supplementary Information to the audited special-purpose financial statements, attached hereto. The Trust pays the Delaware Trustee a fee of $2,500, which is included in administrative costs in the Supplementary Information.

IV. Plan Reserve Blocked Account

Under the Excess Funds Agreement entered as of April 20, 2006, by and among the Trust, Combustion Engineering, Inc., ABB Inc. and ABB Holdings Inc., a Plan Reserve Blocked Account was established and funded to pay certain administrative expenses of the Combustion Engineering Chapter 11 case and certain unsecured creditor claims filed against the Combustion Engineering bankruptcy estate, all if and as allowed by the Bankruptcy Court. To the extent that funds remain in the Plan Reserve Blocked Account after the payment of the allowed administrative expenses and unsecured claims, the funds become the property of the Trust pursuant to the Plan. If the allowed administrative expenses and unsecured claims exceed the

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amount of the funds in the Plan Reserve Blocked Account, the Trust has no liability for the payment of the remaining portion of the allowed administrative expenses and unsecured claims. Under the Plan, the Trust has the right to object to and litigate the validity and allowance of administrative expenses and unsecured claims. The only liability the Trust has for the payment of the allowed administrative expenses and unsecured claims beyond the Trust's interest in the Plan Reserve Blocked Account is the cost of litigating any objections. By agreement with Combustion Engineering, Inc. entered on November 6, 2006, one half of certain legal fees incurred and accrued by Combustion Engineering, Inc. after April 21, 2006 will be paid from the Plan Reserve Blocked Account.

In 2012, by order entered by the Bankruptcy Court on motion of the Trust and Combustion Engineering, the Trust and Combustion Engineering entered into a settlement agreement resolving the claims of Andritz Inc. asserted against Combustion Engineering in the bankruptcy case. *See* Order Granting Joint Motion of the Reorganized Debtor and the Combustion Engineering 524(g) Asbestos PI Trust for Order, Pursuant to Bankruptcy Rule 9019, Approving Settlement Among Combustion Engineering, Inc., the Combustion Engineering 524(g) Asbestos PI Trust and Andritz Inc. [Docket No. 3464 entered in Bankruptcy Case No. 03-10495 (JKF); Docket No. 59 entered in Adversary No. 07-51718 (JKF)]. Pursuant to the settlement agreement, the Trust and Combustion Engineering resolved Andritz Inc.'s asserted claim of approximately $1.4 million for payment of $390,000, which amount was paid from funds held in the Plan Reserve Blocked Account.

Pursuant to the Excess Funds Agreement, on February 1, 2013, Combustion Engineering, Inc. reported to the Trust regarding the status of the Plan Reserve Blocked Account. As of

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January 1, 2013, the balance of the Plan Reserve Blocked Account totaled approximately $10.7 million.

V. Financial Statements

A copy of the Trust's audited financial statements for the year ending December 31, 2012, is attached here as Exhibit "A-1." The attached financial statements include supplemental schedules with the Trust's operating expenses and income taxes for the years ended December 31, 2012 and 2011.

Dated: April 30, 2013

THE HOGAN FIRM

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ATTORNEYS FOR THE COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

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EXHIBIT A-1

COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

AUDITED SPECIAL-PURPOSE FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

AUDITED SPECIAL-PURPOSE FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

Trustees
Combustion Engineering 524(g) Asbestos PI Trust
Dallas, Texas

We have audited the accompanying special-purpose financial statements of Combustion Engineering 524(g) Asbestos PI Trust (the Trust) which comprise the special-purpose statements of assets, liabilities and net claimants' equity as of December 31, 2012, and the related special-purpose statement of changes in net claimants' equity and special-purpose statement of cash flows for the year then ended and the related notes to the special-purpose financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the special-purpose basis of accounting described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the special-purpose financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Combustion Engineering 524(g) Asbestos PI Trust as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with the special-purpose basis of accounting described in Note 2.

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BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Basis of Accounting

We draw attention to Note 2 of the special-purpose financial statements, which describes the basis of accounting. As described in Note 2 to the special-purpose financial statements, the special-purpose financial statements were prepared on a special-purpose basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter. The special-purpose basis of accounting has been used in order to communicate the amount of equity presently available to fund current and future claimants.

Other Matter

The 2011 special-purpose financial statements of the Trust were audited by other auditors whose report dated April 20, 2012 expressed an unmodified opinion on those statements.

Restriction of Use

Our report is intended solely for the information and use of the Trust, the Trustees, the beneficiaries of the Trust, and the United States Bankruptcy Court for the District of Delaware, and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report which, upon filing with the United States Bankruptcy Court for the District of Delaware, is a matter of public record.

BDO USA, LLP

McLean, Virginia
April 22, 2013

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COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

SPECIAL-PURPOSE STATEMENTS OF ASSETS, LIABILITIES AND NET CLAIMANTS' EQUITY

DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
Cash, cash equivalents and investment securities	$ 963,139,499	$ 1,015,034,218
Accrued interest and dividends receivable	9,423,588	10,070,504
Other assets	47,467	11,206
Total assets	972,610,554	1,025,115,928
Liabilities		
Accrued claims, accrued expenses, and accounts payable	21,609,359	562,356
Net claimants' equity	$ 951,001,195	$ 1,024,553,572

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

COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

SPECIAL-PURPOSE STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Additions		
Investment income	$ 37,457,053	$ 40,843,901
Net realized gain on investment securities	40,148,249	13,766,000
Net change in unrealized gain/loss on investment securities	0	55,367
Total additions	77,605,302	54,665,268
Deductions		
Operating expenses and income taxes	4,329,295	4,488,195
Direct investment expenses	1,466,546	1,537,063
Net change in unrealized gain/loss on investment securities	23,332,307	0
Total deductions	29,128,148	6,025,258
Increase in net claimants' equity	48,477,154	48,640,010
Net claimants' equity		
Beginning of year	1,024,553,572	1,076,639,706
Additions to net claimants' equity	235,226	273,612
Distributions from net claimants' equity	(122,264,757)	(100,999,756)
End of year	$ 951,001,195	$ 1,024,553,572

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

COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

SPECIAL-PURPOSE STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash inflows:		
Investment income receipts	$ 38,300,685	$ 41,511,519
Net realized gain on sale of investment securities	40,148,249	13,766,000
Proceeds from insurance settlements	0	1,000,000
Proceeds from other refunds	198,964	272,778
Total cash inflows	78,647,898	56,550,297
Cash outflows:		
Distributions to claimants	101,164,787	101,847,014
Trust operating expenses and income taxes	4,465,744	6,107,770
Direct investment expenses	1,383,063	0
Total cash outflows	107,013,594	107,954,784
Net cash outflows	(28,365,696)	(51,404,487)
Non-cash changes:		
Net change in unrealized gain/loss on investment securities	(23,332,307)	55,367
Amortization of bond premium	(196,716)	0
Total non-cash changes	(23,529,023)	55,367
Net decrease in cash, cash equivalents and investment securities	(51,894,719)	(51,349,120)
Cash, cash equivalents and investment securities, beginning of year	1,015,034,218	1,066,383,338
Cash, cash equivalents and investment securities, end of year	$ 963,139,499	$ 1,015,034,218

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

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COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1 - DESCRIPTION OF THE TRUST

The Combustion Engineering 524(g) Asbestos PI Trust (the Trust), organized pursuant to the laws of the State of Delaware, was established pursuant to the Combustion Engineering, Inc.'s (CE) plan of reorganization, as modified through October 7, 2005 (the Plan) and became effective on April 20, 2006. The Trust was formed to assume all Asbestos PI Trust Claims (whether now existing or arising at any time hereafter) and to use the Asbestos PI Trust assets to pay holders of claims in accordance with the Asbestos PI Trust Agreement. The Trust's funding is dedicated solely to the settlement of asbestos personal injury claims and the related costs thereto, as defined in the Plan. The Trust's principal office is in Wilmington, Delaware and its administrative office is located in Dallas, Texas. Defined terms have the meanings assigned to them in the Plan.

The Trust was initially funded with ABB, Ltd. stock, ABB promissory note, CE contribution agreement, CE convertible secured note, and insurance settlement rights. Any additional insurance rights or proceeds determined subsequent to the inception date will be credited directly to net claimants' equity. Since its creation, the Trust has divested itself of all ABB, Ltd. holdings.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Trust's financial statements are prepared using special-purpose accounting methods adopted by the Trustees, which differ from accounting principles generally accepted in the United States of America (GAAP). The special-purpose accounting methods were adopted in order to communicate to the beneficiaries of the Trust the net claimants' equity and related operating expenses of the Trust. Since the accompanying financial statements and transactions are not based upon GAAP, accounting treatment by other parties for these same transactions may differ as to timing and amount. The special-purpose accounting methods include the following:

a. Insurance recoveries are recorded when the related policies are settled and collectability is assured from the insurance carriers. These recoveries come from various insurance settlements, which were obtained by CE and related entities and assigned to the Trust or were negotiated by the Trust. All known insurance recoveries have been received.

b. Investment securities are recorded at fair market value. All interest and dividend income, net of investment expenses, are included in investment income in the accompanying special-purpose statements of changes in net claimants' equity. Net realized and unrealized gains and (losses) on investment securities are recorded as a net addition or (deduction) in the special-purpose statements of changes in net claimants' equity.

c. Taxable corporate fixed income securities are stated at amortized cost, with amortization and accretion of bond premiums or discounts included in investment income. Nontaxable fixed income securities are stated at historical cost, with amortization of bond premiums or accretion of bond discounts included in unrealized gains and losses. Under GAAP, all fixed income securities would be stated at amortized cost with amortization and accretion recorded in investment income.

d. Future fixed liabilities under contractual obligations and other agreements entered into by the Trust are recorded as deductions in the same period that such contractual obligations or agreements are signed. Under GAAP, liabilities and contractual obligations are recorded over the period that is benefited by the underlying contract or agreement.

e. The full amounts of claims are generally treated as distributions from net claimants' equity in the period in which the settled claims are approved for payment. A settled claim is a claim that has

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been accepted by the claimant and approved by the Trustees. An unpaid claim is a settled claim that cannot be paid due to annual cap limitations or has been authorized for payment by the Trustees but not yet paid. Unpaid claims that are a result of annual cap limitations are recorded when settled. Under GAAP, a liability would be recorded for an estimate of the amount to be paid for claims that have been incurred but not yet reported, and for those claims that have been submitted but not yet approved for payment by the Trust.

f. Payments for services to be received over an extended period in the future are expensed as paid because these amounts are no longer available for the payment of claims. Under GAAP, an asset would be recorded and amortized over the period in which the related benefits are received.

g. Payments for property and equipment are expensed as incurred. Under GAAP, payments for property and equipment are capitalized and depreciated over the useful lives of the assets. To date, the Trust has incurred no expense related to purchases of property and equipment.

h. Income tax expense is estimated and recorded as incurred in the period in which certain income and expense items affect current federal income taxes payable. Income tax refunds are recorded when cash is received by the Trust. Under GAAP, the provision for income taxes is recorded based upon income reported for financial statement purposes, and federal and state income taxes both currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities, such as unrealized gains and losses on investment securities.

Use of estimates

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires the Trust to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the special-purpose financial statements, as well as the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates and such differences could have a material effect on net claimants' equity. As of December 31, 2012 and 2011, the Trust has made no significant estimates or assumptions.

Cash equivalents and investment securities

The Trust considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investment securities are stated at fair market value with changes in unrealized gains and losses recorded in the current period. Investment income is recognized when earned. Any unearned interest and dividend income are recorded as accrued interest and dividends receivable. Realized gains and losses on sales are determined using the specific identification method.

Accrued claims, accrued expenses and accounts payable

Accrued claims consist of certain claims that are settled but unpaid at December 31, 2012 and 2011. A settled claim is a claim that has been accepted by the claimant and approved by the Trustees. An unpaid settled claim is a claim that cannot be paid due to annual cap limitations or has been authorized by the Trustees but not yet paid. Unpaid claims that are a result of annual cap limitations are recorded when settled.

Accrued expenses and accounts payable consist of outstanding invoices associated with managing the Trust.

Operating expenses

Operating expenses of the Trust are recorded as deductions on the statements of changes in net claimants' equity in the period in which the invoices are received and approved.

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Concentrations of credit risk

The Trust's assets that are exposed to credit risk consist of cash and cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Trust has never experienced any losses related to these balances. Non-interest bearing cash balances held in FDIC-insured financial institutions were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage reverted to $250,000 per depositor at each FDIC-insured financial institution, and the Trust's non-interest bearing cash balances again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2012 approximate $100 million.

Subsequent events

The Trust has evaluated its December 31, 2012 special-purpose financial statements for subsequent events through April 22, 2013, the date the special-purpose financial statements were available to be issued. The Trust is not aware of any subsequent events which would require recognition or disclosure in the special-purpose financial statements.

Reclassifications

Certain amounts presented in the 2011 special-purpose financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on the previously recorded Increase in net claimants' equity.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES

Cash, cash equivalents and investment securities consist of the following at December 31, 2012:

	Cost	Fair Market Value	Unrealized Gains
Cash and cash equivalents	$ 100,438,376	$ 100,438,376	$ 0
Equities	113,886,048	126,530,496	12,644,448
Bonds	711,968,097	736,170,627	24,202,530
Total cash, cash equivalents and investments	$ 926,292,521	$ 963,139,499	$ 36,846,978

Cash, cash equivalents and investment securities consist of the following at December 31, 2011:

	Cost	Fair Market Value	Unrealized Gains
Cash and cash equivalents	$ 60,699,307	$ 60,699,307	$ 0
Equities	120,948,948	149,810,698	28,861,750
Bonds	773,206,652	804,524,213	31,317,561
Total cash, cash equivalents and investments	$ 954,854,907	$ 1,015,034,218	$ 60,179,311

The maturities of the Trust's investment in bonds are as follows as of December 31, 2012:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total
Bonds	$ 128,044,600	$ 217,810,572	$ 271,094,969	$ 119,220,486	$ 736,170,627

The maturities of the Trust's investment in bonds are as follows as of December 31, 2011:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total
Bonds	$ 80,263,761	$ 221,585,819	$ 295,563,654	$ 207,110,979	$ 804,524,213

NOTE 4 - FAIR VALUE MEASUREMENTS

The Trust's investments are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the Trust would use valuation models.

The Trust's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Trust uses to measure its financial assets at fair value:

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Bonds: Valued using a metrics system provided by the pricing vendors.

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In general, and where applicable, the Trust uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments. Investments measured at fair value on a recurring basis are summarized below:

	As of December 31, 2012			
	Assets Measured at	Fair Value Hierarchy Level		
Description	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 100,438,376	$ 100,438,376	$ 0	$ 0
Equities:				
Common stock	106,956,558	106,956,558	0	0
Mutual funds	16,276,450	16,276,450	0	0
Other	3,297,488	3,297,488	0	0
Total equities	126,530,496	126,530,496	0	0
Bonds:				
State government	158,394,002	0	158,394,002	0
Corporate	11,827,187	0	11,827,187	0
Municipal	565,949,438	0	565,949,438	0
Total bonds	736,170,627	0	736,170,627	0
Total assets at fair value	$ 963,139,499	$ 226,968,872	$ 736,170,627	$ 0

	As of December 31, 2011			
	Assets Measured at	Fair Value Hierarchy Level		
Description	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 60,699,307	$ 60,699,307	$ 0	$ 0
Equities:				
Common stock	81,518,015	81,518,015	0	0
Mutual funds	65,563,593	65,563,593	0	0
Other	2,729,090	2,729,090	0	0
Total equities	149,810,698	149,810,698	0	0
Bonds:				
State government	162,618,130	0	162,618,130	0
Municipal	641,906,083	0	641,906,083	0
Total bonds	804,524,213	0	804,524,213	0
Total assets at fair value	$ 1,015,034,218	$ 210,510,005	$ 804,524,213	$ 0

NOTE 5 - INCOME TAXES

For federal income tax purposes, CE has elected for the qualified assets of the Trust to be taxed as a Designated Settlement Fund (DSF). For 2012, the statutory income tax rate for the DSF is 35%. The following is a summary of the estimated net taxable operating loss for the years ended December 31:

	2012	2011
Increase in net claimants' equity before income taxes	$ 48,477,154	$ 48,640,010
Less: municipal bond interest	(33,100,395)	(36,861,587)
Less: realized gains on investment securities	(40,148,249)	(13,766,000)
Plus (less):change in net unrealized gains on investment securities	23,332,307	(55,367)
Plus: expenses allocable to municipal bond interest	1,093,754	1,402,152
Net taxable operating loss	(345,429)	(640,792)
Statutory tax rate	35%	35%
Provision for current income taxes	$ 0	$ 0

During the years ended December 31, 2012 and 2011, the Trust generated no capital losses. At December 31, 2012, the Trust has cumulative capital losses of $26,551,953 available to carryforward. Total cumulative capital losses of $24,414,309, and $2,137,644 will expire on December 31, 2014 and 2015, respectively.

During the years ended December 31, 2012 and 2011, the Trust generated net operating losses of $345,429 and $640,792, respectively. At December 31, 2012, the Trust has net operating loss carryforwards to offset future taxable income of $1,721,001. The net operating losses generated will expire, if not utilized at various time through 2027.

NOTE 6 - NET CLAIMANTS' EQUITY

The contributions to net claimants' equity for the years ended December 31, 2012 and 2011 are comprised of insurance settlement rights, foreign scheme payments, and miscellaneous refunds. Pursuant to the Plan, the Trust was assigned certain settled and unsettled insurance rights. All unsettled insurance rights have now been settled. Additionally, the Trust has negotiated certain insurance settlements directly. Any future rights or proceeds for which there is no receivable recorded will be recorded directly as an increase to net claimants' equity when received.

During the years ended December 31, 2012 and 2011, the Trust recorded $235,226 and $273,612, respectively, in foreign scheme payments, tax refunds and other miscellaneous refunds directly as additions to net claimants' equity.

NOTE 7 - DISTRIBUTIONS FROM NET CLAIMANTS' EQUITY

For the years ended December 31, 2012 and 2011, the Trust settled 32,832 and 12,754 claims totaling $122,264,757 and $100,999,756, respectively. For the years ended December 31, 2012 and 2011, the Trust received 25,967 and 32,014 new claim filings, respectively.

The following is a reconciliation of distributions from claimants equity to total claims (and related expenses) paid for the year ended December 31:

	2012	2011
Claim settlements	$ 122,264,757	$ 100,999,756
Change in accrued claims and related expenses	(21,099,970)	847,258
Total cash paid for distributions to claimants	$ 101,164,787	$ 101,847,014

NOTE 8 - CONTINGENT LIABILITIES

The Plan Documents (as defined in the Plan) subject the Trust to certain reimbursement and indemnification obligations that may result in future claims against the Trust.

The probability of such claims cannot be reasonably determined. Accordingly, no associated liability has been recorded in the accompanying special-purpose financial statements. Such claims, if any, are not expected to be material.

NOTE 9 - LIABILITY FOR ASBESTOS CLAIMS

Personal injury claims that were settled, but unpaid as of December 31, 2012 and 2011, have been accrued and included in accrued claims, accrued expenses and accounts payable. These amounts have been included in distributions from net claimants' equity in the accompanying special-purpose statements of changes in net claimants' equity for the payment of claims for the years ended December 31, 2012 and 2011.

The ultimate number of Asbestos PI Trust Claims to be filed and the liability for all such claims are not determinable at this time. The net claimants' equity at December 31, 2012 and 2011 represents funding available for all Asbestos PI Trust Claims for which no fixed liability has yet been established.

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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Trustees
Combustion Engineering 524(g) Asbestos PI Trust
Dallas, Texas

Our audit of the special-purpose financial statements as of and for the year ended December 31, 2012 included in the preceding section of this report was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of those special-purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

The 2011 supplementary information presented in the following section of this report was included in the 2011 special-purpose financial statements of the Trust, which were audited by other auditors whose report on supplementary information included in those special-purpose financial statements expressed an unmodified opinion on the supplementary information in relation to the 2011 special-purpose financial statements as a whole.

BDO USA, LLP

April 22, 2013

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COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

SCHEDULES OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Investment income		
Interest on bonds	$ 33,328,959	$ 36,861,689
Other dividends	4,122,906	1,735,057
Interest on short term investments	5,188	15,558
Dividends from mutual funds	0	2,231,597
Total investment income	$ 37,457,053	$ 40,843,901

See independent auditor's report on supplementary information.

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COMBUSTION ENGINEERING 524(g) ASBESTOS PI TRUST

SCHEDULES OF OPERATING EXPENSES, INCOME TAXES AND DIRECT INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating expenses and income taxes		
Legal fees	$ 1,371,359	$ 1,614,622
Consulting	1,005,012	730,669
Claims processing services	729,112	1,069,576
Trustee disbursements	670,340	559,067
Accounting and audit	392,239	372,577
Insurance	147,300	147,300
Administrative costs	13,933	(5,616)
Total operating expenses and income taxes	$ 4,329,295	$ 4,488,195
Direct investment expenses		
Investment advisory fees	$ 1,171,557	$ 1,432,286
Custodial fees	131,379	102,099
Foreign taxes	163,610	2,678
Total direct investment expenses	$ 1,466,546	$ 1,537,063

See independent auditor's report on supplementary information.

CERTIFICATE OF SERVICE

I, Daniel K. Hogan, certify that on April 30, 2013, a true and correct copy of the foregoing was served on the parties listed below via first class mail and all other parties registered for electronic service via CM/ECF.

/s/ Daniel K. Hogan
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