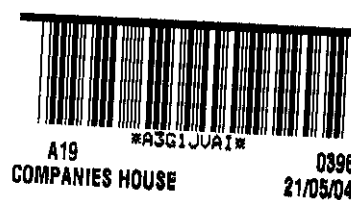


DOW CORNING LIMITED AND SUBSIDIARIES
(Registered Number 486170)

Directors' report and financial statements

31 December 2003



DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2003

The directors present their report and financial statements for the financial year ended 31 December 2003 for Dow Corning Limited ("the company") and its subsidiaries (together "the group").

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The group's principal activities during the year continued to be the manufacture and marketing of silicone products.

TRADING RESULTS, FUTURE DEVELOPMENTS AND DIVIDEND

The results for the year are set out in the accompanying profit and loss account. Earnings before interest, taxation and depreciation amounted to £45.8 million, (2002 earnings of £27.3 million). This improvement has resulted from the company's recent capital investment which has enabled the company to significantly increase its output. It is anticipated that further increases in output in 2004 and succeeding years will bring the company back into profit.

The company now provides approximately 50% of Dow Corning Corporation's global capacity for the manufacture of Di-methyl.

The directors do not recommend the payment of a dividend (2002 - £Nil).

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

CHAPTER 11 PROCEEDING

On 15 May 1995, Dow Corning Corporation (the "Ultimate Parent Company") voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Eastern District of Michigan, Northern Division, in Bay City, Michigan (the "Bankruptcy Court"). The Ultimate Parent Company is operating as a debtor in possession under the supervision of the Bankruptcy Court. As a debtor in possession, the Ultimate Parent Company is authorised to operate its business, but may not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court. The Chapter 11 proceeding does not include any subsidiaries of the Ultimate Parent Company. In the view of the management of the Ultimate Parent Company, filing Chapter 11 protection was necessary to resolve breast implant law suits and other liabilities while maintaining normal business operations.

A Chapter 11 filing in the United States is often a voluntary action taken by a company to protect its ongoing business from financial claims. During a Chapter 11 proceeding, the company financially re-organises so that it can meet all or part of the financial claims of those to whom it owes money at the date of filing. A Chapter 11 proceeding is not a liquidation proceeding. In general, companies file for Chapter 11 protection voluntarily because the process provides a mechanism for the company to emerge as a viable business. Under a Chapter 11 proceeding, a company maintains its normal business operations, continues to pay employee salaries and benefits and does business with suppliers and creditors in a routine manner for the duration of the proceeding.

As a result of the Chapter 11 proceeding, there are certain risks to the company and group relating to the amounts payable to and receivable from the Dow Corning Corporation. This issue is considered in more detail in note 2 to the accounts.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

DIRECTORS

The composition of the Board of Directors during the year, and to the date of this report, was as follow:

D Golsong
T Strange
C Bowyer
J Leech
P Cartwright
R Hansen

There are no directors' interests requiring disclosure under the Companies Act 1985.

EMPLOYMENT OF DISABLED PERSONS

The group has, during the year, given full and fair consideration to applications for employment from disabled persons, having regard to their aptitude and ability.

INVOLVEMENT OF EMPLOYEES IN GROUP AFFAIRS

The group operates many formal and informal programmes to encourage the involvement of employees in its affairs. Regular management communication meetings are organised where senior representatives of management discuss the group's performance and plans with employees.

RESEARCH AND DEVELOPMENT

The company continues to support a research and development activity at Barry dedicated to developing new product concepts and processes to meet changing customer requirements.

POLITICAL AND CHARITABLE DONATIONS

During the year the group made donations of £42,000 (2002 - £11,000) for charitable purposes and no contributions to political parties (2002 - £Nil). These donations were made to a variety of local charities, the largest of which was £20,000 to the local authority for a community play area.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- (1) select suitable accounting policies and then apply them consistently.
- (2) make judgements and estimates that are reasonable and prudent.
- (3) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- (4) 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 responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

POLICY FOR PAYMENT TO CREDITORS

It is the group's payment policy to agree the terms of each transaction with each of its major suppliers, ensuring suppliers are aware of the terms of payment, and then abide by the terms of payment. At the year end the group had an average of 22 days (2002: 25) of purchases outstanding with trade creditors.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By Order of the Board



EA ROCHFORD

Secretary dated 25 March 2004

DOW CORNING LIMITED AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DOW CORNING LIMITED

We have audited the financial statements which comprise the group profit and loss account, the group balance sheet, the balance sheet, and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in Note 1 to the financial statements.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DOW CORNING LIMITED (CONTINUED)

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

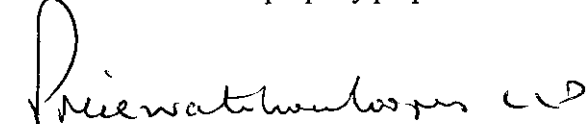
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the possible outcome of the Chapter 11 proceeding in respect of Dow Corning Corporation, the parent company, and the consequent impact upon the company and group. If Dow Corning Corporation were to become insolvent or otherwise cease to trade as a result of the Chapter 11 proceeding, it is not presently clear what further significant impact, if any, there might be upon the company and group. Details of the circumstances relating to this fundamental uncertainty are described in Note 2 to the Financial Statements. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants
and Registered Auditors
One Kingsway,
Cardiff CF10 3PW

25 March 2004

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £'000	2002 £'000
TURNOVER (Notes 1 and 3)	327,478	300,160
COST OF SALES	(299,949)	(285,210)
GROSS PROFIT	27,529	14,950
Distribution costs	(8,203)	(8,858)
Administrative expenses	(11,034)	(17,010)
EBITDA	45,812	27,261
Depreciation	(37,520)	(38,179)
OPERATING PROFIT/(LOSS) (Note 4)	8,292	(10,918)
Loss on disposal of fixed assets	(1,146)	(555)
Interest receivable	75	157
Interest payable and similar charges (Note 7)	(10,208)	(14,446)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(2,987)	(25,762)
Tax on loss on ordinary activities (Note 8)	—	—
LOSS FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES (Note 18)	(2,987)	(25,762)
RETAINED LOSS BROUGHT FORWARD	(149,263)	(123,501)
RETAINED LOSS CARRIED FORWARD	(152,250)	(149,263)

All material operations are continuing.

There are no profits or losses other than those included above and therefore no separate statement of recognised gains and losses has been presented.

There is no material difference between the result as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

The notes on pages 10 to 29 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 2003

	2003 £'000	2002 £'000
FIXED ASSETS		
Tangible assets (Note 9)	283,906	316,881
CURRENT ASSETS		
Stocks (Note 11)	25,440	25,462
Debtors (Note 12)	98,027	84,380
Cash at bank and in hand	4,948	3,903
	128,415	113,745
CREDITORS - Amounts falling due within one year (Note 13)	(234,691)	(234,371)
NET CURRENT LIABILITIES	(106,276)	(120,626)
TOTAL ASSETS LESS CURRENT LIABILITIES	177,630	196,255
CREDITORS - Amounts falling due after more than one year (Note 14)	(176,542)	(192,180)
NET ASSETS	<u>1,088</u>	<u>4,075</u>
CAPITAL AND RESERVES		
Called up share capital (Note 17)	150,000	150,000
Reserves: (Note 18)		
Profit and loss account	(152,250)	(149,263)
Share premium	3,063	3,063
Revaluation reserve	275	275
	(148,912)	(145,925)
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 19)	<u>1,088</u>	<u>4,075</u>

APPROVED BY THE BOARD ON 25 March 2004
AND SIGNED ON ITS BEHALF BY

W. Terry Strange

W.T.STRANGE, DIRECTOR

The notes on pages 10 to 29 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 2003

	<u>2003</u> £'000	<u>2002</u> £'000
FIXED ASSETS		
Tangible assets (Note 9)	283,906	316,881
Investments (Note 10)	<u>2,278</u>	<u>2,278</u>
	286,184	319,159
CURRENT ASSETS		
Stocks (Note 11)	25,440	25,462
Debtors (Note 12)	98,027	84,380
Cash at bank and in hand	<u>4,946</u>	<u>3,903</u>
	128,413	113,745
CREDITORS - Amounts falling due within one year (Note 13)	<u>(237,012)</u>	<u>(236,694)</u>
NET CURRENT LIABILITIES	<u>(108,599)</u>	<u>(122,949)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	177,585	196,210
CREDITORS - Amounts falling due after more than one year (Note 14)	<u>(176,542)</u>	<u>(192,180)</u>
NET ASSETS	<u>1,043</u>	<u>4,030</u>
CAPITAL AND RESERVES		
Called up share capital (Note 17)	150,000	150,000
Reserves: (Note 18)		
Profit and loss account	(152,295)	(149,308)
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(148,957)	(145,970)
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 19)	<u>1,043</u>	<u>4,030</u>

APPROVED BY THE BOARD ON 25 March 2004
AND SIGNED ON ITS BEHALF BY



T. STRANGE, DIRECTOR

The notes on pages 10 to 29 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

1 ACCOUNTING POLICIES

(1) Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The company's accounting policies which are set out below have been applied consistently.

(2) Fixed assets

Subject only to the revaluation of freehold land, fixed assets are shown at cost less accumulated depreciation.

Land and assets under construction are not depreciated.

The cost of tangible fixed assets, other than land and assets under construction, are depreciated by equal annual instalments over the expected useful lives of the assets as follows:

Owned and leased buildings	up to 50 years
Plant and machinery	3 - 11 years
Motor vehicles	3 - 4 years
Computer equipment	3 - 5 years

(3) Interest capitalisation

The company has a policy of capitalising interest as a component of the cost of capital assets constructed for its own use. This policy applies to major projects, which exceed £1 million in cost and with a construction period, which exceeds one year.

(4) Government grants

Account is taken of regional development grants when eligible expenditure is incurred. Special Incentive Scheme grants are accounted for on a cash basis. Some government grants are treated as deferred income and are transferred to the profit and loss account over the lives of the assets to which they relate.

(5) Stocks and work in progress

These are stated at the lower of cost and net realisable value. An appropriate proportion of process overheads are included in the value of finished goods and work in progress.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

1 ACCOUNTING POLICIES (CONTINUED)

(6) Deferred taxation

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognized only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and/or from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(7) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the appropriate rate of exchange at the dates of the transactions. Exchange gains and losses on transactions are dealt with in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period end rate. Exchange gains and losses on monetary assets and liabilities are dealt with in the profit and loss account.

(8) Turnover

Turnover represents the invoiced value of goods and services supplied, but excludes value added tax.

(9) Research and development

Research and development costs are written off in the year in which they are incurred. Research and development expenditure comprises wages and salaries, materials and attributable overheads. Research is performed under contract for the parent company.

(10) Leased assets

Assets leased under finance leases, as defined by Statement of Standard Accounting Practice No 21, are capitalised at inception at their original cost and a lease obligation set up for that capitalised amount. Rental payments during the lease period are apportioned between capital repayment and finance cost. Rental payments in respect of operating leases are charged to the profit and loss account on a straight-line basis.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

1 ACCOUNTING POLICIES (CONTINUED)

(11) Goodwill

The group's policy is to write off the value of goodwill over its useful economic life.

(12) Basis of consolidation

The consolidated accounts incorporate the accounts of the company and its subsidiaries made up to 31 December in each year.

(13) Pension costs

In accordance with the provisions of SSAP 24, pension contributions to pension schemes providing benefits based on final pensionable pay are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as is possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

2 CHAPTER 11 PROCEEDING

On 15 May 1995, Dow Corning Corporation (the "Ultimate Parent Company") voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Eastern District of Michigan, Northern Division, in Bay City, Michigan (the "Bankruptcy Court"). The Ultimate Parent Company is operating as a debtor-in-possession under the supervision of the Bankruptcy Court. As a debtor in possession, the Ultimate Parent Company is authorised to operate its business, but may not engage in transactions outside of the ordinary course of business without the approval of the Bankruptcy Court.

The Chapter 11 proceeding does not include any subsidiaries of the Ultimate Parent Company; however, as a result of the Chapter 11 filing, the creditors of the Ultimate Parent Company (including the company) are precluded from collecting debts which arose prior to the filing for Chapter 11 protection (other than with the approval of the Bankruptcy Court).

The company and group has net receivables from the Ultimate Parent Company in the amount of £6,541,372 and net payables to the parent company in the amount of £196,303,632 which are included in these accounts. There is a risk that the Ultimate Parent Company may call for some amounts owed to it by the company or group to be paid immediately. In the view of the directors, after taking account of all available information, the likelihood of this event happening in the near future is remote.

In 1998, following the filing of a number of proposed plans of reorganisation, the Ultimate Parent Company, with the support of the creditor committee representing products liability claimants, filed a joint plan of reorganisation, which was subsequently amended in 1999 (the "Joint Plan of Reorganisation"), and a related disclosure. The Joint Plan of Reorganisation would provide up to \$4.5 billion to satisfy claims of the Ultimate Parent Company's creditors. On November 30 1999, the Bankruptcy Court issued an order confirming the Joint Plan of Reorganisation, (the "Confirmation Order").

Following the issuance of the Confirmation Order, various appeals of the Confirmation Order were filed with the US District Court in Michigan. On 13 November 2000, the US District Court in Michigan affirmed the Bankruptcy Court's Confirmation Order. There have been twelve appeals of the US District Court in Michigan's November 13 2000 ruling, to the relevant US Court of Appeals. On 23 October 2001, the US Court of Appeals heard oral arguments relative to these appeals. On 29 January 2002, the US Court of Appeals issued an opinion requiring the US District Court in Michigan to conduct further proceedings for the purposes of factually and procedurally supporting some of the prior rulings and orders of the Bankruptcy Court's confirmation of the Joint Plan of Reorganisation. The US District Court in Michigan completed these proceedings and, on 11 December 2002, issued an opinion that such prior rulings and orders of the Bankruptcy Court are factually and procedurally supported. There has been one appeal of this opinion to the US Court of Appeals. The ultimate parent company is uncertain as to when this appeal will be resolved.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

In a related development, the Bankruptcy court judge who has presided over the Chapter 11 proceedings recused himself from continuing jurisdiction over the Chapter 11 Proceedings, effective from 13 December 2001. As a result, the Chapter 11 Proceedings have been withdrawn from the Bankruptcy Court and transferred to the US District Court in Michigan.

As a result of the uncertainty of the outcome of the above process occurring in the United States of America with the Ultimate Parent Company, the directors are unable to determine with an acceptable degree of reliability the ultimate outcome of these matters and the effect that these matters will have on the future operations and financial results of the company.

3 TURNOVER

The geographical analysis of the group's turnover is as follows:

	2003 £'000	2002 £'000
United Kingdom	67,692	64,210
Rest of the World	<u>259,786</u>	<u>235,950</u>
	<u>327,478</u>	<u>300,160</u>

Further geographical analysis is not given here, as the directors believe it would be seriously prejudicial to the business.

All turnover arises from the principal activities of the group which the directors consider to represent one business segment.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

4 OPERATING PROFIT/(LOSS)

The operating profit/(loss) is after charging / (crediting) the following:

	<u>2003</u>	<u>2002</u>
	£'000	£'000
Depreciation of owned assets	37,500	38,159
Depreciation of assets held under finance leases	20	20
Hire of plant and machinery	1,512	1,461
Other operating lease rentals	559	511
Auditors' remuneration (including expenses)		
— Group	40	40
— Company	40	40
Net exchange loss on foreign currency	2,806	725
Release of deferred grant income	-	(508)
Reorganisation costs	-	3,300
Long term incentive payments	-	4,407
	<u> </u>	<u> </u>

Fees payable to auditors in the year for non-audit work for the group amounted to £25,000 (2002 - £26,000).

Research and development costs are reimbursed by the US parent company pursuant to a contract research agreement.

Reorganisation costs are principally redundancy costs (see note 5).

The long term incentive payments have arisen as a result of amendments to the group's long term term incentive plan.

5 STAFF COSTS

	<u>2003</u>	<u>2002</u>
	£'000	£'000
Wages and salaries	25,587	27,022
Redundancy	-	3,131
Social security costs	2,360	2,223
Pension costs	4,193	3,688
Exceptional cost (see note 4 above)	-	4,407
	<u> </u>	<u> </u>
	32,140	40,471
	<u> </u>	<u> </u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

5 STAFF COSTS (CONTINUED)

The average monthly number of persons employed by the group during the year, including directors, was as follows:

	<u>2003</u> Number	<u>2002</u> Number
Management and administration	59	47
Production and research	525	602
Sales	69	36
	<u>653</u>	<u>685</u>

These persons were all employed in the United Kingdom.

6 DIRECTORS' EMOLUMENTS

	<u>2003</u> £'000	<u>2002</u> £'000
Emoluments	<u>389</u>	<u>248</u>
Compensation for loss of office	<u>-</u>	<u>175</u>
Highest paid director:		
Total amount of emoluments	<u>226</u>	<u>126</u>
Accrued pension at end of year	<u>-</u>	<u>-</u>

The number of directors participating in the company's defined benefit pension scheme was 1 (2002: 2).

7 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2003</u> £'000	<u>2002</u> £'000
Interest on bank loans	2	7
Interest on loans from group undertakings	10,206	14,439
	<u>10,208</u>	<u>14,446</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

8 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge for the year (2002: £ nil).

Factors affecting tax charge for period

	<u>2003</u>	<u>2002</u>
	£'000	£'000
Loss on ordinary activities before tax	(2,987)	(25,762)
UK corporation tax calculated at the standard rate of 30% (2002: 30%) on loss on ordinary activities before tax	(896)	(7,729)
Effects of:		
– Expenses not deductible and income not taxable for tax purposes	(102)	(96)
– Depreciation in excess of capital allowances	4,309	2,608
– Brought forward losses used which were not previously recognised in deferred tax	(1,452)	-
– Losses not recognised for deferred tax	-	7,188
– Other timing differences	(1,859)	(1,971)
Total current tax charge for period	<u>-</u>	<u>-</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

9 TANGIBLE ASSETS –GROUP AND COMPANY

	Assets under short term lease		Owned assets			
	Land and buildings £'000	Plant and equipment £'000	Land and buildings £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Cost or Valuation						
At 1 January 2003	189	9	73,206	510,511	1,690	585,605
Additions	-	-	229	2,295	3,167	5,691
Transfers	-	-	69	1,304	(1,373)	-
Disposals	-	-	(322)	(11,657)	(236)	(12,215)
At 31 December 2003	189	9	73,182	502,453	3,248	579,081
Accumulated Depreciation						
At 1 January 2003	36	6	16,791	251,891	-	268,724
Charge for the year	19	1	2,590	34,910	-	37,520
Disposals	-	-	(53)	(11,016)	-	(11,069)
At 31 December 2003	55	7	19,328	275,785	-	295,175
Net Book Amount						
At 31 December 2003	134	2	53,854	226,668	3,248	283,906
At 31 December 2002	153	3	56,415	258,620	1,690	316,881

Included within Plant and equipment above is capitalised interest with a net book value of £36,506,203 (2002: £41,720,000) and commissioning costs with a net book value of £2,545,456 (2002: £2,910,000). No interest was capitalised during the year.

Included in the owned assets land and buildings amount for the company and group are valuations performed on certain freehold land as at 30 June 1966.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

9 TANGIBLE ASSETS –GROUP AND COMPANY (CONTINUED)

The historic cost of the freehold land is £553,000 (2002: £553,000). The amounts of the valuations are as follows:

	<u>2003</u>	<u>2002</u>
	£'000	£'000
Freehold land	828	828
	<u> </u>	<u> </u>

Future capital expenditure not provided for in these accounts:

	<u>Group and Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
Contracts placed	3,649	3,280
	<u> </u>	<u> </u>

10 INVESTMENTS

As at 31 December 2003 the company owned 100% of the issued ordinary share capital of its subsidiaries. Their names and country of registration are:

Dow Corning Hansil Limited - England
Dow Corning STI Limited - England

Dow Corning STI Limited and Dow Corning Hansil Limited are both dormant companies.

11 STOCKS

	<u>Group and Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
Raw materials and consumables	20,657	13,368
Finished goods and goods for resale	4,783	12,094
	<u> </u>	<u> </u>
	25,440	25,462
	<u> </u>	<u> </u>

The replacement cost of stock is not materially different from that stated above.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

12 DEBTORS

	<u>Group and Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
Trade debtors	12,666	14,240
Amounts owed by group undertakings	66,358	56,048
Pension fund prepayment	16,762	8,800
Other debtors and prepayments	2,241	5,292
	<u>98,027</u>	<u>84,380</u>

13 CREDITORS - Amounts falling due within one year

	<u>Group</u>		<u>Company</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	£'000	£'000	£'000	£'000
Obligations under finance leases and hire purchase contracts	-	1	-	1
Trade creditors	14,235	11,627	14,235	11,627
Amounts owed to group undertakings	146,682	159,744	149,003	162,067
Loans from group undertakings (Note 16)	54,277	41,371	54,277	41,371
Employee taxation and social security	717	656	717	656
Accruals	18,786	20,978	18,786	20,978
Taxation	(6)	(6)	(6)	(6)
	<u>234,691</u>	<u>234,371</u>	<u>237,012</u>	<u>236,694</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2002

14 CREDITORS - Amounts falling due after more than one year

	<u>Group and Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
Loans from group undertakings (Note 16)	175,000	190,000
Accruals	1,542	2,180
	<u>176,542</u>	<u>192,180</u>

15 PROVISION FOR DEFERRED TAX

	<u>Group and Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
Deferred taxation has been accounted for in respect of:		
- Capital allowances in excess of depreciation	55,770	60,148
- Other short term timing differences	(30,095)	(30,615)
- Losses	(25,675)	(29,533)
	<u>-</u>	<u>-</u>

Deferred tax assets with a tax value of £72m (2002: £70m) have not been recognised due to uncertainty of utilisation.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

16 LOANS FROM GROUP UNDERTAKINGS

	<u>Group and Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
(a) Secured (£) loan from ultimate parent company, under a £250 million revolving Credit Agreement dated 29 February 1996 expiring 31 December 2005; the interest rate is 6 month LIBOR plus 1%.	175,000	190,000
(b) Unsecured (JPY) loan from Dow Corning Toray Silicones under a 3,000,000,000 JPY revolving Credit Agreement dated 16 October 2000; the interest rate is TIBO plus 0.45%	41,752	34,563
(c) Unsecured (JPY) loan from Dow Corning Asia Limited under a 1,000,000,000 JPY revolving Credit Agreement dated 25 October 2000; the interest rate is TIBO plus 0.25%	12,525	6,808

In addition to the interest paid on the above loans, the company also pays a variable fee of 3/8 of 1% on the average daily unused portion of the facility on the secured £250 million revolving loan. This is payable on the last day of each calendar quarter.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

17 CALLED UP SHARE CAPITAL

	<u>Company</u>	
	<u>2003</u>	<u>2002</u>
	£'000	£'000
Authorised: 165,250,000 (2002: 165,250,000) Ordinary shares of £1 each	165,250	165,250
	<hr/>	<hr/>
Allotted, issued and fully paid 150,000,000 (2002: 150,000,000) Ordinary shares of £1 each	150,000	150,000
	<hr/>	<hr/>

18 RESERVES

	<u>Group</u>	<u>Company</u>
	£'000	£'000
PROFIT AND LOSS		
At 1 January 2003	(149,263)	(149,308)
Loss for the year	(2,987)	(2,987)
	<hr/>	<hr/>
At 31 December 2003	(152,250)	(152,295)
	<hr/>	<hr/>
SHARE PREMIUM		
At 31 December 2003 and 2002	3,063	3,063
	<hr/>	<hr/>
REVALUATION RESERVE		
At 31 December 2003 and 2002	275	275
	<hr/>	<hr/>
TOTAL RESERVES AT 31 DECEMBER 2003	(148,912)	(148,957)
	<hr/>	<hr/>

As permitted by Section 230(1) of the Companies Act 1985, no separate profit and loss account has been prepared for the company.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group		Company	
	2002	2002	2002	2002
	£'000	£'000	£'000	£'000
Loss for the financial year	(2,987)	(25,762)	(2,987)	(25,762)
Opening shareholders' funds	4,075	29,837	4,030	29,792
Closing shareholders' funds	<u>1,088</u>	<u>4,075</u>	<u>1,043</u>	<u>4,030</u>

20 OPERATING LEASE COMMITMENTS

At 31 December 2003 the group had annual commitments under non- cancellable operating leases as follows:

	Land and Buildings £'000	Other £'000	Total operating lease rentals payable in 2003 £'000
Commitments expiring in 2004		98	98
Commitments expiring 2005 – 2008 inclusive		384	384
Commitments expiring after 2008	559	298	857
	<u>559</u>	<u>780</u>	<u>1,339</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

21 LONG TERM SUPPLY CONTRACTS

The company has entered into long term contracts with various suppliers for the supply of raw materials, electricity and steam, and other services. The expiry date of the contracts along with the minimum payments due as of 31 December 2003 are shown as follows:

	<u>Raw materials</u>	<u>Electricity, steam and water</u>	<u>Other services</u>
Contract expiry date	2006	2012	2024
Minimum payments due are as follows:	£'000	£'000	£'000
2004	51,266	16,974	4,347
2005	54,042	17,457	4,489
2006	25,113	17,462	4,525
2007	-	17,086	4,525
2008	-	16,819	4,525
Thereafter	-	66,891	54,194

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

22 PENSION COMMITMENTS

The company's pension scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 December 2001. The assumptions in that valuation which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 7.5% per annum, salary increases would average 5% per annum and that present and future pensions would increase at the rate of 2.5% per annum.

The actuarial valuation at 31 December 2001 showed that the market value of the scheme's assets was £135,115,000 and that the actuarial value of those assets represented 115% of the benefits accrued to pension scheme members, having taken account of expected future increases in earnings.

The above actuarial valuation indicated a surplus of £17,228,000 in respect of the pension scheme.

Amounts charged to pension expense for the year were as follows:

	2003 £'000	2002 £'000
Dow Corning Limited	4,193	3,688
	<u>4,193</u>	<u>3,688</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

23 FRS17 RETIREMENT BENEFITS

The additional pension disclosures required by FRS 17 are as follows based on the most recent actuarial valuation, as disclosed in Note 25, and updated by the scheme's actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2003. Scheme assets are stated at their market values at 31 December 2003.

Major assumptions:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	%	%	%
Discount rate	5.50	5.75	6.0
Inflation rate	2.50	2.25	2.5
Increases to deferred benefits during deferment	2.50	2.25	2.5
Increases to pensions in payment	2.50	2.25	2.5
Salary increases	4.50	4.25	4.5

The expected long term rates of return on the main asset classes at 31 December were:

Equities	7.50	7.25	7.5
Bonds	5.00	4.6	4.8
Other	6.50	2.25	2.5

The weighted average expected long term rates of return at 31 December

7.00	6.75	7.0
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	<u>2003</u>	<u>2002</u>	<u>2001</u>
	£'000	£'000	£'000
The market value of the assets in the scheme at 31 December was:			
Equities	101,306	77,709	97,710
Bonds	19,502	21,758	23,121
Other	5,343	319	894
Total market value of assets	126,151	99,786	121,725
Present value of liabilities	(170,284)	(148,844)	(137,966)
Deficit	(44,133)	(49,058)	(16,241)
Related deferred tax asset	13,240	14,717	4,872
Net deficit	(30,893)	(34,341)	11,369

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

23 FRS17 RETIREMENT BENEFITS (continued)

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2003 would be as follows:

	2003 £000	2002 £000
Net assets excluding pension liability	1,088	4,075
Prepayment in balance sheet written off	(16,762)	(8,800)
Pension fund liability	(30,893)	(34,341)
Group net (liabilities)/assets including pension fund liability	(46,567)	(39,066)
Group profit and loss reserve excluding pension liability	(152,250)	(149,263)
Prepayment in balance sheet written off	(16,762)	(8,800)
Pension fund liability	(30,893)	(34,341)
Group profit and loss reserve including pension fund liability	(199,905)	(192,404)
The amount charged to the profit and loss account under FRS 17 would have been:	2003 £'000	2002 £'000
Current service cost	5,156	5,535
Past service cost	-	652
Interest cost	8,400	8,064
Expected return on pension scheme assets	(6,895)	(8,469)
Profit and loss charge	6,661	5,782
Analysis of amount that would have been included within the group statement of recognised gains and losses under FRS 17	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	11,970	(28,919)
Experience gain and losses arising on the scheme liabilities	798	7,157
Changes in assumptions underlying the scheme liabilities	(13,182)	(9,924)
Actuarial loss recognised in group statement of total recognised gains and losses	(414)	(31,686)
The movement in deficit during the year would have been:		
Deficit in scheme at the beginning of the year	(49,058)	(16,241)
Movement in year:		
Current service cost	(5,156)	(5,535)
Contributions	12,000	4,651
Past service cost	-	(652)
Net interest/return on assets	(1,505)	405
Actuarial loss	(414)	(31,686)
Deficit in scheme at the end of the year	(44,133)	(49,058)

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2003

23 FRS17 RETIREMENT BENEFITS (continued)

Details of experience gains and losses for the year to 31 December 2003

Difference between the expected and actual return on scheme assets:	2003 £'000	2002 £'000
Amount (£'000)	11,970	(28,919)
Percentage of scheme assets	9.4%	29%
Experience gains and losses on scheme liabilities:		
Amount	798	7,157
Percentage of the present value of the scheme liabilities	0.5%	4.8%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	(414)	(31,686)
Percentage of the present value of the scheme liabilities	0.2%	21.3%

24 PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The parent company is Dow Corning Corporation, a company incorporated in the State of Michigan in the United States of America. Group accounts may be obtained from:

Dow Corning Limited
Cardiff Road
Barry
Vale of Glamorgan
CF63 2YL

The company is a 100% owned subsidiary of a corporation producing group accounts which are publicly available and accordingly the company has taken advantage of the exemption set out in FRS 8 not to disclose related party transactions with members of the Dow Corning Corporation group.