

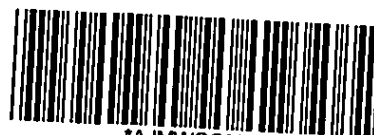
DOW CORNING

DOW CORNING LIMITED AND SUBSIDIARIES
(Registered Number 486170)

Directors' report and financial statements

31 December 2006

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COMPANIES HOUSE

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BSI Registered
Certificate Number EMS 38800



BSI Inc. Registered
Certificate Number FM10734

DOW CORNING LIMITED AND SUBSIDIARIES
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

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DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and financial statements for the financial year ended 31 December 2006 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

PRICE RISK

Energy and other raw material price risk management policies are in place to meet the Company's needs and are reviewed by the directors on a regular basis

CREDIT RISK

A large proportion of the Company's sales are intra-group. The Company has implemented appropriate credit control policies that require credit evaluations on potential third party customers before sales are made.

FOREIGN CURRENCY RISK

The Company conducts business in many foreign countries and as a result is exposed to movements in foreign currency exchange rates. The Company's exposure to exchange rate effects is from exchange rate movements on financial instruments and transactions denominated in foreign currencies that impact earnings. The Company's most significant foreign currency exposures relate to the United States, Hong Kong, and western European countries. The exchange rate risks are managed on a Group basis by the Groups Treasury function and as a result, the Company selectively enters into foreign exchange forward contracts with its U.S. parent company to hedge its exposure to these risks. There are no formal contracts in place at 31 December 2006.

ENVIRONMENTAL RISK

The Company works closely with the Environment Agency and routinely conducts tests of all its facilities to ensure compliance with current government legislation. The Company has minimised the number of disposal outlets used, and carries out audits to ensure that any wastes are dealt with in the appropriate manner. The Company cannot predict what future legal, regulatory or other actions, if any, may be taken regarding the Company's products and byproducts or the consequence of their production and sale.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

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 £54.4 million, (2005 earnings of £68.4 million).

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 (2005 £ nil)

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, (the "Bankruptcy Court"). The Chapter 11 proceeding did not include any subsidiaries of the Ultimate Parent Company. On 1 June 2004, the Ultimate Parent Company concluded its Chapter 11 proceeding and is in the process of implementing its plan of reorganization. However, unresolved issues remain with, among others, the creditors represented by a committee of unsecured creditors regarding the amount of interest to be paid on the Ultimate Parent Company's obligations to its commercial creditors. The company believes that the ultimate resolution of these remaining issues will not have a material effect on the future operations and financial results of the company.

DIRECTORS

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

B Sulmon	
C Bowyer	
J Leech	Resigned 24 April 2006
P Cartwright	
M Matthews	
E Rochford	Resigned 1 March 2006
J Cole	Appointed 1 March 2006
J Maddox	Appointed 24 April 2006

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

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

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 £8,449 (2005 £33,473) for charitable purposes and no contributions to political parties (2005 £ nil). These donations were made to a variety of local charities.

POLICY FOR PAYMENT TO CREDITORS

It is the group's 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 29 days (2005 31) of purchases outstanding with trade creditors.

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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company and the group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

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.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware.

Each director has taken appropriate steps to ensure that they are aware of such relevant information, and the company's auditors are aware of that information.

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



J.M. Cole
Secretary

Dated 12 June 2007

DOW CORNING LIMITED AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DOW CORNING LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Dow Corning limited for the year ended 31 December 2006 which comprise Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the 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 into 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

DOW CORNING LIMITED AND SUBSIDIARIES

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

Basis of audit opinion

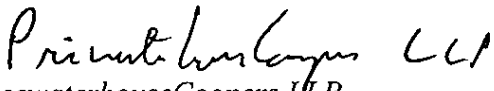
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's and parent company's profit for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff

15 June 2007

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

Continuing Operations	Note	2006 £'000	2005 £'000
Turnover	3	378,234	374,431
Cost of Sales		(340,221)	(320,462)
Gross Profit		38,013	53,969
Distribution costs		(8,548)	(9,602)
Administrative expense	4	(4,068)	(5,798)
EBITDA		54,384	68,352
Depreciation		(28,987)	(29,783)
Operating Profit	5	25,397	38,569
Loss on disposal of fixed assets		(667)	(758)
Interest receivable and similar charges	8	1,234	54
Interest payable and similar charges	9	(5,210)	(5,006)
Profit on ordinary activities before taxation		20,754	32,859
Tax on profit on ordinary activities	10,14	10,000	1,000
Profit for the financial year transferred to Reserves	19	30,754	33,859

Shareholders' funds

A statement of the movement on reserves is given in Note 19 to the financial statements and a reconciliation of movements in shareholders' funds is given in Note 20

Historical cost profits and losses

There is no material difference between the profit of ordinary activities before taxation and the retained profit for the periods stated above, and their historical cost equivalents

DOW CORNING LIMITED AND SUBSIDIARIES

STATEMENT of TOTAL RECOGNISED GAINS and LOSSES for the year ended 31 DECEMBER 2006

	2006	2005
	£'000	£'000
Profit for the financial year	30,754	33,859
Actuarial gain / (loss) on pension scheme (note 23)	19,787	(6,033)
Total recognised gains and losses relating to year	50,541	27,826
Prior year adjustment – FRS 17	-	(75,824)
Total gains and losses recognised since last annual report	50,541	(47,998)

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Tangible assets	11	215,714	237,313
Current Assets			
Stocks	13	26,306	27,652
Debtors	14	138,853	107,040
Cash at bank and in hand		6,575	4,673
		<u>171,734</u>	<u>139,365</u>
Creditors - Amounts falling due within one year	15	(167,088)	(183,907)
Net Current Assets / (Liabilities)		<u>4,646</u>	<u>(44,542)</u>
Total Assets less Current Liabilities		<u>220,360</u>	<u>192,771</u>
Creditors - Amounts falling due after more than one year	16	(59,852)	(60,609)
Net Assets before Pension Liability		<u>160,508</u>	<u>132,162</u>
Pension Liability	23	(45,465)	(67,660)
Net Assets		<u>115,043</u>	<u>64,502</u>
Capital and Reserves			
Called up share capital	18	<u>250,000</u>	<u>250,000</u>
Reserves			
Profit and loss account	19	(138,295)	(188,836)
Share premium	19	3,063	3,063
Revaluation reserve	19	275	275
		<u>(134,957)</u>	<u>(185,498)</u>
Equity Shareholders' Funds	20	<u>115,043</u>	<u>64,502</u>

The financial statements and the notes to the financial statements on pages 9 to 31 were approved by the board of directors on 12th June 2007 and were signed on it's behalf by



M Matthews (DIRECTOR)

DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Tangible assets	11	215,714	237,313
Investments	12	2,278	2,278
		<u>217,992</u>	<u>239,591</u>
Current Assets			
Stocks	13	26,306	27,652
Debtors	14	138,853	107,040
Cash at bank and in hand		6,575	4,673
		<u>171,734</u>	<u>139,365</u>
Creditors - Amounts falling due within one year	15	(169,411)	(186,230)
Net Current Assets / (Liabilities)		<u>2,323</u>	<u>(46,865)</u>
Total Assets less Current Liabilities		<u>220,315</u>	<u>192,726</u>
Creditors - Amounts falling due after more than one year	16	(59,852)	(60,609)
Net Assets before Pension Liability		<u>160,463</u>	<u>132,117</u>
Pension Liability	23	(45,465)	(67,660)
Net Assets		<u>114,998</u>	<u>64,457</u>
Capital and Reserves			
Called up share capital	18	250,000	250,000
Reserves			
Profit and loss account	19	(138,340)	(188,881)
Share premium	19	3,063	3,063
Revaluation reserve	19	275	275
		<u>(135,002)</u>	<u>(185,543)</u>
Equity Shareholders' Funds	20	<u>114,998</u>	<u>64,457</u>

The financial statements and the notes to the financial statements on pages 9 to 31 were approved by the board of directors on 12th June 2007 and were signed on it's behalf by



M Matthews (DIRECTOR)

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards in the UK all of which have been applied consistently throughout the year and the preceding period. Where a range of treatment is available the directors apply the most appropriate accounting policy and estimation treatment in accordance with Financial Reporting Standard Numbers 18 (FRS 18).

Change in Accounting Policy

The company adopted FRS21 'Events after the balance sheet date', the presentation requirements of FRS25 'Financial Instruments Disclosure and Presentation', and FRS28 'Corresponding Amounts'.

The change in accounting policies to adopt the requirements of FRS21, FRS25 and FRS28 have not had an impact on the financial statements for the current or prior year.

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 - 15 years
Motor vehicles	3 - 4 years
Computer equipment	3 - 5 years

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 have a construction period that exceeds one year.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES (CONTINUED)

Turnover

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

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.

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.

Goodwill

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

Basis of consolidation

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

Pensions obligations

The group operates a defined benefit pension scheme, which closed to new entrants in 2005, with assets held in a separately administered fund. The assets of the scheme are valued using closing market values. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability.

The increase in the present value of the liability expected to arise from employee service in the period is charged to operating profit. The actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are included in the statement of recognised gains and losses.

The group contributes to a fully insured group personal pension plan managed by an outside insurer, for employees whom are not part of the defined benefit scheme. The pension cost in respect of the personal pension plan comprise of contributions payable in respect of the year.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES (CONTINUED)

Cash Flow

The groups' cash flows are included within those reported by its parent and therefore under the provisions of FRS1 (revised) the group has taken advantage of the exemption available and has not included a cash flow statement within these financial statements

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, (the "Bankruptcy Court") The Chapter 11 proceeding did not include any subsidiaries of the Ultimate Parent Company On 1 June 2004, the Ultimate Parent Company concluded its Chapter 11 proceeding and is in the process of implementing its plan of reorganization However, unresolved issues remain with, among others, the creditors represented by a committee of unsecured creditors regarding the amount of interest to be paid on the Ultimate Parent Company's obligations to its commercial creditors The company believes that the ultimate resolution of these remaining issues will not have a material effect on the future operations and financial results of the company

As a result of the Chapter 11 filing, the creditors of the Ultimate Parent Company (including the company) were precluded from collecting debts which arose prior to the filing for Chapter 11 protection (other than with the approval of the Bankruptcy Court) As a result of the conclusion of the Ultimate Parent Company's Chapter 11 proceeding, the net receivables from and net payables to the Ultimate Parent Company were satisfied as of 31 December 2004, except for certain royalty payments due from the company to the Ultimate Parent Company

3 TURNOVER

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

	2006 £'000	2005 £'000
United Kingdom	71,016	71,629
Rest of the World	307,218	302,802
	<u>378,234</u>	<u>374,431</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 2006

4 ADMINISTRATIVE EXPENSE

	2006 £'000	2005 £'000
Net exchange gain on foreign currency	(3,513)	(4,723)
Other expense	7,581	10,521
	<u>4,068</u>	<u>5,798</u>

5 OPERATING PROFIT

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

	2006 £'000	2005 £'000
Depreciation of owned assets	28,971	29,766
Depreciation of assets held under finance leases	16	17
Hire of plant and machinery	1,481	1,536
Other operating lease rentals	553	553
Auditors' remuneration (including expenses)		
– Group	45	43
– Company	45	43
Net exchange gain on foreign currency	(3,513)	(4,723)
Reorganisation costs	53	70
	<u></u>	<u></u>

Fees payable to auditors in the year for non-audit work for the group amounted to £7,081 (2005 £7,402)

In addition to the audit fees shown above, an amount of £26,000 (2005 £36,000) has been charged by the auditors in respect of work performed at the request of the auditors of the parent company. This amount has not been reflected within the company's profit and loss account as it is borne by the parent.

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 6)

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

6 STAFF COSTS

	2006 £'000	2005 £'000
Wages and salaries	32,680	28,578
Redundancy	53	70
Social security costs	3,129	2,804
Pension costs (note 23)	8,250	6,531
	<u>44,112</u>	<u>37,983</u>

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

	2006 Number	2005 Number
Management and administration	45	48
Production and research	564	532
Sales	53	50
	<u>662</u>	<u>630</u>

These persons were all employed in the United Kingdom

7 DIRECTORS' EMOLUMENTS

	2006 £'000	2005 £'000
Emoluments	722	610
Highest paid director		
Total amount of emoluments	349	263
Accrued pension at end of year	39	36

The number of directors participating in the company's defined benefit pension scheme was 3 (2005 3)

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

8 INTEREST RECEIVABLE AND SIMILAR CHARGES

	2006 £'000	2005 £'000
Interest receivable from group undertakings	37	54
Finance income from pension scheme	1,197	-
	<u>1,234</u>	<u>54</u>

9 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £'000	2005 £'000
Interest on loans from group undertakings	5,210	4,582
Finance charges for pension scheme	-	424
	<u>5,210</u>	<u>5,006</u>

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no Corporation Tax charge for the year (2005 £ nil). A deferred tax credit in respect of brought forward losses of £10,000,000 has been recognised in the year (2005 £1,000,000) (see Note 14)

Factors affecting tax charge for period	2006 £'000	2005 £'000
Profit on ordinary activities before tax	20,754	32,859
UK corporation tax calculated at the standard rate of 30% (2005 30%) on profit on ordinary activities before tax	6,226	9,858
Effects of		
- Expenses not deductible and income not taxable for tax purposes	(819)	(91)
- Depreciation in excess of capital allowances	4,402	4,057
- Brought forward losses	(8,759)	(5,092)
- Other timing differences	(1,050)	(8,732)
Total current tax charge for period	<u>-</u>	<u>-</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

11 TANGIBLE ASSETS / GROUP AND COMPANY

	Leasehold Land and Buildings £'000	Freehold Land and Buildings £'000	Plant and Equipment £'000	Assets under Construction £'000	Total £'000
Cost or Valuation					
At 1 January 2006	189	74,791	507,404	5,878	588,262
Additions	-	183	2,306	5,566	8,055
Transfers	-	2,156	3,152	(5,308)	-
Disposals	-	(149)	(7,465)	-	(7,615)
At 31 December 2006	189	76,981	505,397	6,136	588,702
Accumulated Depreciation					
At 1 January 2006	90	23,858	327,001	-	350,949
Charge for the year	16	2,447	26,524	-	28,987
Disposals	-	(82)	(6,866)	-	(6,948)
At 31 December 2006	106	26,223	346,658	-	372,988
Net Book Amount					
At 31 December 2006	83	50,758	158,739	6,136	215,714
At 31 December 2005	99	50,933	180,403	5,878	237,313

Included within plant and equipment above is capitalised interest with a net book value of £25,548,632 (2005 £29,201,156) and commissioning costs with a net book value of £1,782,028 (2005 £2,036,704) 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 2006

11 TANGIBLE ASSETS / GROUP AND COMPANY (CONTINUED)

The historic cost of the freehold land is £553,000 (2005 £553,000) The amounts of the valuations are as follows

	2006 £'000	2005 £'000
Freehold land	828	828

Future capital expenditure not provided for in these accounts

	Group and Company	
	2006 £'000	2005 £'000
Contracts placed	6,832	1,236

12 INVESTMENTS

As at 31 December 2006 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

13 STOCKS

	Group and Company	
	2006 £'000	2005 £'000
Raw materials and consumables	23,901	23,650
Finished goods and goods for resale	2,405	4,002
	<u>26,306</u>	<u>27,652</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 2006

14 DEBTORS

	Group and Company	
	2006	2005
	£'000	£'000
Trade debtors	14,303	12,995
Amounts owed by group undertakings	107,899	86,143
Other debtors and prepayments	5,651	6,902
Deferred tax assets	11,000	1,000
	<u>138,853</u>	<u>107,040</u>

The deferred tax asset arises as follows -

	Group and Company	
	2006	2005
	£'000	£'000
Capital Allowances in excess of depreciation	44,221	48,663
Other short term timing differences	(19,928)	(16,735)
Losses	(35,293)	(32,928)
	<u>(11,000)</u>	<u>(1,000)</u>

The deferred tax asset of £11 million is recoverable against future forecast taxable profits within a time horizon that the directors consider to be more likely than not to occur. Deferred tax assets with a value of £47 million (2005 £58 million) have not been recognised due to uncertainty of utilisation.

Movement on deferred tax

	Group and Company	
	2006	2005
	£'000	£'000
Opening balance	1,000	-
Release to profit and loss account	10,000	1,000
Closing balance	<u>11,000</u>	<u>1,000</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

15 CREDITORS - Amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade creditors	26,152	22,150	26,152	22,150
Amounts due to group undertakings	88,832	82,845	91,155	85,168
Loans from group undertakings (Note 17)	31,207	53,022	31,207	53,022
Taxation and social security	809	746	809	746
Accruals	20,088	25,144	20,088	25,144
	<u>167,088</u>	<u>183,907</u>	<u>169,411</u>	<u>186,230</u>

16 CREDITORS - Amounts falling due after more than one year

	Group and Company	
	2006 £'000	2005 £'000
Loans from group undertakings (Note 17)	58,514	58,941
Accruals	1,338	1,668
	<u>59,852</u>	<u>60,609</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

17 LOANS FROM GROUP UNDERTAKINGS

	Group and Company	
	2006	2005
	£'000	£'000
(a) Unsecured (JPY) loan from Dow Corning Toray Company Ltd (previously named Dow Corning Toray Silicone Company Ltd) under a JPY 10 billion revolving Credit Agreement dated 16 October 2000, the interest rate is TIBOR plus 0.15%	19,300	23,177
(b) Unsecured (JPY) loan from Dow Corning Holding Japan Ltd (previously named Dow Corning Asia Limited) under a JPY 1 billion revolving Credit Agreement dated 25 October 2000, the interest rate is TIBOR plus 0.25%	7,824	26,359
(c) Unsecured (USD) loan from Dow Corning Taiwan Inc under a loan agreement dated 1 December 2005, the interest rate is USD LIBOR plus 0.50%	4,083	3,486
	31,207	53,022
(d) Unsecured (EUR) loan from the ultimate parent company, under a EUR 100 million revolving Credit Agreement dated 1 November 2004 expiring 31 October 2009, the interest rate is 6 month EUR LIBOR plus 0.30%	20,850	15,078
(e) Unsecured (EUR) loan from Dow Corning SA, under a EUR 80 million revolving credit agreement dated 1 June 2004 expiring 31 May 2009, the interest rate is 6 months EUR LIBOR plus 0.30%	37,664	38,380
(f) Unsecured (EUR) loan from Dow Corning GMBH under a EUR 10 million revolving credit agreement dated 1 June 2004 expiring on 31 May 2009, the interest rate is six month EUR LIBOR plus 0.30%	-	5,483
	58,514	58,941

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

18 CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised 270,250,000 (2005 270,250,000) Ordinary shares of £1 each	<u>270,250</u>	<u>270,250</u>
Allotted, issued and fully paid 250,000,000 (2005 250,000,000) Ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

19 RESERVES

	Group £'000	Company £'000
PROFIT AND LOSS		
1 January 2006	(188,836)	(188,881)
Retained profit for the financial year	30,754	30,754
Actuarial gain on pension scheme	19,787	19,787
At 31 December 2006	<u>(138,295)</u>	<u>(138,340)</u>
SHARE PREMIUM		
At 31 December 2006 and 2005	3,063	3,063
REVALUATION RESERVE		
At 31 December 2006 and 2005	275	275
TOTAL RESERVES AT 31 DECEMBER 2006	<u>(134,957)</u>	<u>(135,002)</u>

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 2006

20 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Profit for the financial year	30,754	33,859	30,754	33,859
Actuarial gain / (loss) on pension scheme	19,787	(6,033)	19,787	(6,033)
Net addition to shareholders' funds	50,541	27,826	50,541	27,826
Opening shareholders' funds	64,502	36,676	64,457	36,631
Closing shareholders' funds	115,043	64,502	114,998	64,457

21 OPERATING LEASE COMMITMENTS

At 31 December 2006 the group had annual commitments under non- cancellable operating leases as follows

	Land and Buildings £'000	Other £'000	Total annual operating lease commitments £'000
Expiring within 1 year	-	20	20
Expiring within 2 to 5 years	300	408	708
Expiring after 5 years	253	-	253
	553	428	981

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

22 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 dates of the contracts along with the minimum payments due as of 31 December 2006 are shown as follows

	Raw materials	Electricity, steam and water	Other services
Contract expiry date	2008	2012	2024
Minimum payments due are as follows	£'000	£'000	£'000
2007	40,951	22,313	4,729
2008	45,067	22,063	4,729
2009		22,063	4,729
2010	-	22,063	4,729
2011	-	21,840	4,729
Thereafter	-	21,424	41,138

23 PENSION AND SIMILAR OBLIGATIONS

Personal pension plan

Some employees of the group are members of the group personal pension plan, the assets of which are held separately from those of the group, in an independently administered fund. The total pension cost charged in the profit and loss account in respect of this plan, representing contributions made by the group, was £120,000 (2005 £24,000).

Defined benefit pension scheme

The company operates a defined benefit scheme, which was closed to new entrants in 2005, with assets held in a separately administered fund. An actuarial valuation of the scheme as at 31 December 2004, using the projected unit basis was carried out by AON Consulting Ltd and has been updated at 31 December 2006. The major assumptions used by the actuary were

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

DEFINED BENEFIT PENSION SCHEME

Major assumptions

	2006 %	2005 %	2004 %
Discount rate	5.25	4.75	5.25
Inflation rate	3.00	2.75	2.75
Increases to deferred benefits during deferment	3.00	2.75	2.75
Increases to pensions in payment	3.00	2.75	2.75
Salary increases	4.75	4.50	4.50
The expected long term rates of return on the main asset classes at 31 December were			
Equities	8.00	8.00	7.75
Bonds	4.80	4.60	5.00
Other	7.00	7.00	6.75
The weighted average expected long term rates of return at 31 December	7.20	7.18	7.06

	2006 £'000	2005 £'000	2004 £'000
The market value of the assets in the scheme at 31 December was			
Equities	133,802	118,907	97,455
Bonds	41,111	37,098	30,895
Other	17,296	13,681	11,587
Total market value of assets	192,209	169,686	139,937
Present value of liabilities	(237,674)	(237,346)	(198,633)
Deficit	(45,465)	(67,660)	(58,696)

The related deferred tax asset has not been recognised as a result of uncertainty surrounding its utilisation

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

DEFINED BENEFIT PENSION SCHEME

Analysis of Amount Charged to Operating Profit

	2006 £'000	2005 £'000
Current service cost	8,130	6,507

Analysis of amount credited / (charged) as interest

	2006 £'000	2005 £'000
Expected return on pension scheme assets	12,317	9,844
Interest on pension liabilities	(11,120)	(10,268)
Net Return	<u>1,197</u>	<u>(424)</u>

Analysis of Amount Recognised in Statement of Total Recognised Gains & Losses

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	6,309	20,924
Experience gains and losses on scheme liabilities	941	3,270
Changes in assumptions underlying the present value of the scheme liabilities	<u>12,537</u>	<u>(30,227)</u>
Actuarial gain / (loss) recognised in the STRGL	<u>19,787</u>	<u>(6,033)</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

DEFINED BENEFIT PENSION SCHEME

Movements in Deficit during the year

	2006 £'000	2005 £'000
Deficit in scheme at beginning of the year	(67,660)	(58,696)
Current service cost	(8,130)	(6,507)
Contributions	9,341	4,000
Other finance income / (charge)	1,197	(424)
Actuarial gain / (loss)	19,787	(6,033)
Deficit in scheme at the end of the year	<u>(45,465)</u>	<u>(67,660)</u>

History of experience gains and losses

	2006	2005	2004	2003
Actual return less expected return on pension scheme assets				
Amount (£'000)	6,309	20,924	3,253	11,970
Percentage of scheme assets (%)	<u>3</u>	<u>12</u>	<u>2</u>	<u>9</u>
Experience gains and losses on scheme liabilities				
Amount (£'000)	941	3,270	1,300	798
Percentage of the present value of the scheme liabilities (%)	-	1	1	-
Actuarial gain / (loss) recognised in STRGL				
Amount (£'000)	19,787	(6,033)	(14,588)	(414)
Percentage of the present value of the scheme liabilities (%)	<u>8</u>	<u>(2.5)</u>	<u>(7.3)</u>	<u>(0.2)</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

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.