

DOW CORNING LIMITED AND SUBSIDIARIES
(Registered Number 486170)

Directors' report and financial statements

31 December 2004



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DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and financial statements for the financial year ended 31 December 2004 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 £48.1 million, (2003 earnings of £45.8 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 (2003 - £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, Northern Division, in Bay City, 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.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

DIRECTORS

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

D Golsong	Resigned 14 September 2004
T Strange	Resigned 5 July 2004
C Bowyer	
J Leech	
P Cartwright	
R Hansen	
M Matthews	Appointed 5 July 2004
E Rochford	Appointed 25 March 2004

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 £21,758 (2003 - £42,000) for charitable purposes and no contributions to political parties (2003 - £Nil). These donations were made to a variety of local charities, the largest of which was £8,215 to the local YMCA.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004 (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 34 days (2003: 22) 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 15 March 2005

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, company balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in Note 1.

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 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 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.

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

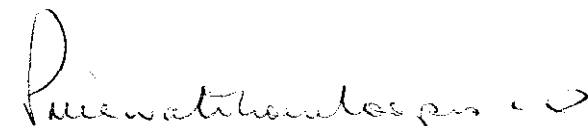
Basis of audit opinion

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.

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 2004 and of the profit 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

15 March 2005

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u> £'000	<u>2003</u> £'000
TURNOVER (Notes 1 and 3)	334,243	327,478
COST OF SALES	<u>(297,780)</u>	<u>(299,949)</u>
GROSS PROFIT	36,463	27,529
Distribution costs	(9,322)	(8,203)
Administrative expenses	<u>(9,060)</u>	<u>(11,034)</u>
EBITD	48,114	45,812
Depreciation	<u>(30,033)</u>	<u>(37,520)</u>
OPERATING PROFIT (Note 4)	18,082	8,292
Loss on disposal of fixed assets	(297)	(1,146)
Interest receivable	66	75
Interest payable and similar charges (Note 7)	<u>(6,439)</u>	<u>(10,208)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	11,412	(2,987)
Tax on profit on ordinary activities (Note 8)	—	—
PROFIT/(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES (Note 18)	11,412	(2,987)
RETAINED LOSS BROUGHT FORWARD	<u>(152,250)</u>	<u>(149,263)</u>
RETAINED LOSS CARRIED FORWARD	<u>(140,838)</u>	<u>(152,250)</u>

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 9 to 27 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 2004

	<u>2004</u> £'000	<u>2003</u> £'000
FIXED ASSETS		
Tangible assets (Note 9)	<u>262,218</u>	<u>283,906</u>
CURRENT ASSETS		
Stocks (Note 11)	27,022	25,440
Debtors (Note 12)	108,566	98,027
Cash at bank and in hand	<u>4,427</u>	<u>4,948</u>
	140,015	128,415
CREDITORS - Amounts falling due within one year (Note 13)	<u>(204,811)</u>	<u>(234,691)</u>
NET CURRENT LIABILITIES	<u>(64,796)</u>	<u>(106,276)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	197,422	177,630
CREDITORS - Amounts falling due after more than one year (Note 14)	<u>(84,922)</u>	<u>(176,542)</u>
NET ASSETS	<u>112,500</u>	<u>1,088</u>
CAPITAL AND RESERVES		
Called up share capital (Note 17)	<u>250,000</u>	<u>150,000</u>
Reserves: (Note 18)		
Profit and loss account	(140,838)	(152,250)
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(137,500)	(148,912)
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 19)	<u>112,500</u>	<u>1,088</u>

APPROVED BY THE BOARD ON 15 March 2005
AND SIGNED ON ITS BEHALF BY



M Matthews, DIRECTOR

The notes on pages 9 to 27 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 2004

	2004 £'000	2003 £'000
FIXED ASSETS		
Tangible assets (Note 9)	262,218	283,906
Investments (Note 10)	<u>2,278</u>	<u>2,278</u>
	<u>264,496</u>	<u>286,184</u>
CURRENT ASSETS		
Stocks (Note 11)	27,022	25,440
Debtors (Note 12)	108,566	98,027
Cash at bank and in hand	<u>4,424</u>	<u>4,946</u>
	140,012	128,413
CREDITORS - Amounts falling due within one year (Note 13)	<u>(207,131)</u>	<u>(237,012)</u>
NET CURRENT LIABILITIES	<u>(67,119)</u>	<u>(108,599)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	197,377	177,585
CREDITORS - Amounts falling due after more than one year (Note 14)	<u>(84,922)</u>	<u>(176,542)</u>
NET ASSETS	<u>112,455</u>	<u>1,043</u>
CAPITAL AND RESERVES		
Called up share capital (Note 17)	<u>250,000</u>	<u>150,000</u>
Reserves: (Note 18)		
Profit and loss account	(140,883)	(152,295)
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(137,545)	(148,957)
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 19)	<u>112,455</u>	<u>1,043</u>

APPROVED BY THE BOARD ON 15 March 2005
AND SIGNED ON ITS BEHALF BY



M Matthews, DIRECTOR

The notes on pages 9 to 27 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

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

In 2004 the estimated useful economic lives of much of the company's plant and machinery was reviewed and was increased from 11 to 15 years with effect from 1 January 2004. The impact of this change was to reduce the depreciation charge for the current year by c.£,6,000,000.

(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 2004

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 2004

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 2004

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). The company and group had net receivables from the Ultimate Parent Company in the amount of GBP 6,541,372 and net payables to the Ultimate Parent Company in the amount of GBP 196,303,632, which were included in these accounts for the year ended 31 December 2003. As a result of the conclusion of the Ultimate Parent Company's Chapter 11 proceeding, the net receivables and net payables have been 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:

	<u>2004</u> £'000	<u>2003</u> £'000
United Kingdom	70,754	67,692
Rest of the World	<u>263,489</u>	<u>259,786</u>
	<u>334,243</u>	<u>327,478</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 2004

4 OPERATING PROFIT

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

	<u>2004</u> £'000	<u>2003</u> £'000
Depreciation of owned assets	30,015	37,500
Depreciation of assets held under leases	18	20
Hire of plant and machinery	1,474	1,512
Other operating lease rentals	593	559
Auditors' remuneration (including expenses)		
– Group	40	40
– Company	40	40
Net exchange (gain) / loss on foreign currency	(869)	2,806
Reorganisation costs	1,282	-
	<u> </u>	<u> </u>

Fees payable to auditors in the year for non-audit work for the group amounted to £10,000 (2003 - £25,000).

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).

5. STAFF COSTS

	<u>2004</u> £'000	<u>2003</u> £'000
Wages and salaries	25,854	25,587
Redundancy	1,226	-
Social security costs	2,569	2,360
Pension costs	5,700	4,193
	<u>35,349</u>	<u>32,140</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

5 STAFF COSTS (CONTINUED)

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

	<u>2004</u> Number	<u>2003</u> Number
Management and administration	278	278
Production and research	317	320
Sales	55	55
	<u>650</u>	<u>653</u>

These persons were all employed in the United Kingdom.

6 DIRECTORS' EMOLUMENTS

	<u>2004</u> £'000	<u>2003</u> £'000
Emoluments	<u>331</u>	<u>389</u>
Highest paid director:		
Total amount of emoluments	171	226
Accrued pension at end of year	<u>28</u>	<u>-</u>

The number of directors participating in the company's defined benefit pension scheme was 3 (2003: 1).

7 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2004</u> £'000	<u>2003</u> £'000
Interest on bank loans	-	2
Interest on loans from group undertakings	6,439	10,206
	<u>6,439</u>	<u>10,208</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

8 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge for the year (2003: £ nil).

Factors affecting tax charge for period

	<u>2004</u>	<u>2003</u>
	£'000	£'000
Profit / (Loss) on ordinary activities before tax	11,412	(2,987)
UK corporation tax calculated at the standard rate of 30% (2003: 30%) on profit / (loss) on ordinary activities before tax	3424	(896)
Effects of:		
– Expenses not deductible and income not taxable for tax purposes	26	(102)
– Depreciation in excess of capital allowances	2,911	4,309
– Brought forward losses used which were not previously recognised in deferred tax	(3,446)	(1,452)
– Other timing differences	(2,915)	(1,859)
Total current tax charge for period	-	-

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

9 TANGIBLE ASSETS –GROUP AND COMPANY

	<u>Assets under short term lease</u>		<u>Owned assets</u>			
	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Assets under construction</u>	<u>Total</u>
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation						
At 1 January 2004	189	9	73,182	502,453	3,248	579,081
Additions	-	-	261	4,091	4,289	8,641
Transfers	-	-	163	1,904	(2,067)	-
Disposals	-	-	-	(536)	-	(536)
At 31 December 2004	189	9	73,606	507,912	5,470	587,186
Accumulated Depreciation						
At 1 January 2004	55	7	19,328	275,785	-	295,175
Charge for the year	18	2	2,494	27,519	-	30,033
Disposals	-	-	-	(240)	-	(240)
At 31 December 2004	73	9	21,822	303,064	-	324,968
Net Book Amount						
At 31 December 2004	116	-	51,784	204,848	5,470	262,218
At 31 December 2003	134	2	53,854	226,668	3,248	283,906

Included within Plant and equipment above is capitalised interest with a net book value of £32,854,241 (2003: £36,506,203) and commissioning costs with a net book value of £2,290,817 (2003: £2,545,456). 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 2004

9 TANGIBLE ASSETS –GROUP AND COMPANY (CONTINUED)

The historic cost of the freehold land is £553,000 (2003: £553,000). The amounts of the valuations are as follows:

	<u>2004</u> £'000	<u>2003</u> £'000
Freehold land	828	828
	<u> </u>	<u> </u>

Future capital expenditure not provided for in these accounts:

	<u>Group and Company</u>	
	<u>2004</u>	<u>2003</u>
	£'000	£'000
Contracts placed	797	3,649
	<u> </u>	<u> </u>

10 INVESTMENTS

As at 31 December 2004 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>2004</u>	<u>2003</u>
	£'000	£'000
Raw materials and consumables	18,222	20,657
Finished goods and goods for resale	8,800	4,783
	<u>27,022</u>	<u>25,440</u>
	<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 2004

12 DEBTORS

	<u>Group and Company</u>	
	<u>2004</u>	<u>2003</u>
	£'000	£'000
Trade debtors	13,145	12,666
Amounts owed by group undertakings	72,677	66,358
Pension fund prepayment	17,128	16,762
Other debtors and prepayments	5,616	2,241
	<u>108,566</u>	<u>98,027</u>

13 CREDITORS - Amounts falling due within one year

	<u>Group</u>		<u>Company</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	£'000	£'000	£'000	£'000
Trade creditors	21,791	14,235	21,791	14,235
Amounts owed to group undertakings	130,696	146,682	133,016	149,003
Loans from group undertakings (Note 16)	29,809	54,277	29,809	54,277
Employee taxation and social security	893	717	893	717
Accruals	21,628	18,786	21,628	18,786
Taxation	(6)	(6)	(6)	(6)
	<u>204,811</u>	<u>234,691</u>	<u>207,131</u>	<u>237,012</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

14 CREDITORS - Amounts falling due after more than one year

	<u>Group and Company</u>	
	<u>2004</u>	<u>2003</u>
	£'000	£'000
Loans from group undertakings (Note 16)	83,527	175,000
Accruals	1,395	1,542
	<u>84,922</u>	<u>176,542</u>

15 PROVISION FOR DEFERRED TAX

	<u>Group and Company</u>	
	<u>2004</u>	<u>2003</u>
	£'000	£'000
Deferred taxation has been accounted for in respect of:		
- Capital allowances in excess of depreciation	52,824	55,770
- Other short term timing differences	(25,464)	(30,095)
- Losses	(27,360)	(25,675)
	<u>-</u>	<u>-</u>

Deferred tax assets with a tax value of £68m (2003: £72m) have not been recognised due to uncertainty of utilisation.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

16 LOANS FROM GROUP UNDERTAKINGS

	<u>Group and Company</u>	
	<u>2004</u>	<u>2003</u>
	£'000	£'000
(a) 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%	25,328	41,752
(b) 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%	4,052	12,525
(c) Other short term loans from group companies	429	-
	<hr/> 29,809	<hr/> 54,277
(d) Unsecured (£) loan from Dow Corning SA, under a €100 million revolving Credit Agreement dated 1 November 2004 expiring 31 October 2009; the interest rate is 6 month LIBOR plus 0.30%	3,530	-
(e) Unsecured (EUR) loan from Dow Corning SA, under a €80 million revolving credit agreement dated 1 June 2004 expiring 31 May 2009; the interest rate is 6 months EUR LIBOR plus 0.30%	51,531	-
(f) Unsecured (KRW) loan from Dow Corning Korea Ltd, under a KRW 20 billion loan agreement dated 9 November 2004 expiring 8 November 2006; the interest rate is the three month KRWCD rate plus 0.5%	10,014	-
(g) Unsecured (USD) loan from Dow Corning Korea Ltd, under a USD 7 million loan agreement dated 1 June 2004, expiring on 31 May 2009; the interest rate is the three month USD LIBOR plus 0.50%	3,628	-
(g) Unsecured (EUR) loan from Dow Corning France SA under a €50 million revolving loan agreement dated 1 June 2004 expiring on 31 May 2009; the interest rate is 6 months EUR LIBOR plus 0.30%	9,177	-
(h) Unsecured (EUR) loan from Dow Corning France SA under a €50 million revolving loan agreement dated 1 June 2004 expiring on 31 May 2009; the interest rate is 6 months EUR LIBOR plus 0.30%.	9,177	-
(i) Unsecured (EUR) loan from Dow Corning GMBH under a €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%	5,647	-
(j) 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
	<hr/> 83,527	<hr/> 175,000

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

17 CALLED UP SHARE CAPITAL

	<u>2004</u> £'000	<u>Company</u> <u>2003</u> £'000
Authorised: 270,250 (2003: 165,250,000) Ordinary shares of £1 each	270,250	165,250
Allotted, issued and fully paid 250,000,000 (2003: 150,000,000) Ordinary shares of £1 each	250,000	150,000

During the year the company issued 100,000,000 Ordinary shares of £1 each to its parent company Dow Corning Corporation. The share issue provided funding for the repayment of certain intercompany loans.

18 RESERVES

	<u>Group</u> £'000	<u>Company</u> £'000
PROFIT AND LOSS		
At 1 January 2004	(152,250)	(152,295)
Profit for the year	11,412	11,412
At 31 December 2004	(140,838)	(140,883)
SHARE PREMIUM		
At 31 December 2004 and 2003	3,063	3,063
REVALUATION RESERVE		
At 31 December 2004 and 2003	275	275
TOTAL RESERVES AT 31 DECEMBER 2004	(137,500)	(137,545)

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 2004

19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<u>Group</u>		<u>Company</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	£'000	£'000	£'000	£'000
Profit / (Loss) for the financial year	11,412	(2,987)	11,412	(2,987)
Opening shareholders' funds	1,088	4,075	1,043	4,030
Increase in share capital	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Closing shareholders' funds	<u>112,500</u>	<u>1,088</u>	<u>112,455</u>	<u>1,043</u>

20 OPERATING LEASE COMMITMENTS

At 31 December 2004 the group had annual commitments under non- cancellable operating leases as follows:

	<u>Land and Buildings</u>	<u>Other</u>	<u>Total operating lease rentals payable in 2004</u>
	£'000	£'000	£'000
Commitments expiring in 2005	-	218	218
Commitments expiring 2006 – 2009 inclusive	-	375	375
Commitments expiring after 2009	<u>559</u>	<u>-</u>	<u>559</u>
	<u>559</u>	<u>593</u>	<u>1,152</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

21 LONG TERM SUPPLY CONTRACTS

The company has entered into long term contracts with various suppliers for the supply of raw materials, electricity, steam, water and other services. The expiry dates of the contracts along with the minimum payments due as of 31 December 2004 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
2005	54,042	17,457	4,489
2006	54,042	17,462	4,529
2007		17,086	4,525
2008	-	16,819	4,525
2009	-	16,824	4,525
Thereafter	-	66,471	49,669

At 31 December 2004 the company had entered into a number of outstanding forward exchange contracts in order to hedge against the impact of changes in foreign currency exchange rates. A summary of the outstanding forward contracts, all of which expire during 2005, is provided below.

<u>Value of currency sold</u>	<u>Value of currency purchased</u>
HK\$ 781,686,744	GBP 54,194,878
Euro 203,728,143	GBP 144,950,095

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

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:

	<u>2004</u>	<u>2003</u>
	£'000	£'000
Dow Corning Limited	<u>5700</u>	<u>4193</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

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 22, 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 2004. Scheme assets are stated at their market values at 31 December 2004.

Major assumptions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	%	%	%
Discount rate	5.25	5.50	5.75
Inflation rate	2.75	2.50	2.25
Increases to deferred benefits during deferment	2.75	2.50	2.25
Increases to pensions in payment	2.75	2.50	2.25
Salary increases	4.50	4.50	4.25

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

Equities	7.75	7.50	7.25
Bonds	5.00	5.00	4.60
Other	6.75	6.50	2.25

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

7.10	7.00	6.75
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	<u>2004</u>	<u>2003</u>	<u>2002</u>
	£'000	£'000	£'000
The market value of the assets in the scheme at 31 December was:			
Equities	97,455	101,306	77,709
Bonds	30,895	19,502	21,758
Other	11,587	5,343	319
Total market value of assets	139,937	126,151	99,786
Present value of liabilities	(198,633)	(170,284)	(148,844)
Deficit	(58,696)	(44,133)	(49,058)
Related deferred tax asset	17,609	13,240	14,717
Net deficit	(41,087)	(30,893)	(34,341)

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

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 2004 would be as follows:

	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Net assets excluding pension liability	112,500	1,088
Prepayment in balance sheet written off	(17,128)	(16,762)
Pension fund liability	(41,087)	(30,893)
	<u>54,285</u>	<u>(46,567)</u>
Group net assets / (liabilities) including pension fund liability		
Group profit and loss reserve excluding pension liability	(140,838)	(152,250)
Prepayment in balance sheet written off	(17,128)	(16,762)
Pension fund liability	(41,087)	(30,893)
	<u>(199,053)</u>	<u>(199,905)</u>
Group profit and loss reserve including pension fund liability		
	<u>54,285</u>	<u>(46,567)</u>
The amount charged to the profit and loss account under FRS 17 would have been:	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Current service cost	5,737	5,156
Past service cost	-	-
Interest cost	9,213	8,400
Expected return on pension scheme assets	(8,975)	(6,895)
	<u>5,975</u>	<u>6,661</u>
Profit and loss charge		
	<u>5,975</u>	<u>6,661</u>
Analysis of amount that would have been included within the group statement of recognised gains and losses under FRS 17 !	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Actual return less expected return on pension scheme assets	3,253	11,970
Experience gain and losses arising on the scheme liabilities	1,300	798
Changes in assumptions underlying the scheme liabilities	(19,141)	(13,182)
	<u>(14,588)</u>	<u>(414)</u>
Actuarial loss recognised in group statement of total recognised gains and losses		
	<u>(14,588)</u>	<u>(414)</u>
The movement in deficit during the year would have been:		
Deficit in scheme at the beginning of the year	(44,133)	(49,058)
Movement in year:		
Current service cost	(5,737)	(5,156)
Contributions	6,000	12,000
Net interest cost	(238)	(1,505)
Actuarial loss	(14,588)	(414)
	<u>(58,696)</u>	<u>(44,133)</u>
Deficit in scheme at the end of the year		
	<u>(58,696)</u>	<u>(44,133)</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2004

23 FRS17 RETIREMENT BENEFITS (continued)

Details of experience gains and losses for the year to 31 December 2004

Difference between the expected and actual return on scheme assets:	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Amount (£'000)	3,253	(11,970)	(28,919)
Percentage of scheme assets	2.3%	9.4%	29%
Experience gains and losses on scheme liabilities:			
Amount	1,300	798	7,157
Percentage of the present value of the scheme liabilities	0.6%	0.5%	4.8%
Total amount recognised in statement of total recognised gains and losses:			
Amount (£'000)	(14,588)	(414)	(31,686)
Percentage of the present value of the scheme liabilities	7.3%	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.