

DOW CORNING LIMITED AND SUBSIDIARIES
(Registered Number 486170)

REPORT AND ACCOUNTS

31 DECEMBER 1996



DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996

The directors present their report and accounts for the financial year ended 31 December 1996 for Dow Corning Limited ("the company") and its subsidiaries ("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 AND DIVIDEND

The results for the year are set out in the accompanying profit and loss account. No interim dividend was proposed (1995- £Nil). The directors do not recommend the payment of a final dividend (1995 - £Nil). Transfers to and from reserves are detailed at note 18.

FUTURE DEVELOPMENTS

The group is in the midst of a significant expansion of its manufacturing capabilities (to be completed in 1999) in response to the expanding world market for its products.

CHAPTER 11 PROCEEDING

On 15 May 1995, the ultimate parent company, Dow Corning Corporation, 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; it 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. In the view of management of the ultimate parent company, filing Chapter 11 protection was necessary to resolve breast implant lawsuits 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 reorganises so that it can meet all or part of the financial claims of those to whom it owes money at the date of the 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 do 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 the amounts receivable from 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 1996 (CONTINUED)

DIRECTORS

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

AF Joachim	(Resigned 16 June 1996)
RA Hazleton	
RC Pitcher	
IG Ross	(Resigned 14 June 1996)
S Haberer	(Resigned 14 June 1996)
MF Briggs	
JL Bedford	(Appointed 17 January 1996)
A Royez	(Appointed 14 June 1996)
MA Worsley	(Appointed 14 June 1996)
D Golsong	(Appointed 14 June 1996)
DB Haines	(Appointed 14 June 1996)

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

FIXED ASSETS

The movements on fixed assets during the year are shown in notes 6 and 7 to the accounts.

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 groups of employees.

RESEARCH AND DEVELOPMENT

Dow Corning Limited continues to support a research and development activity at Barry dedicated to obtaining a better understanding of its products and processes and to developing new product concepts to meet changing customer requirements.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996 (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 and 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 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.

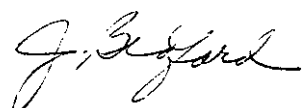
POLICY FOR PAYMENT TO CREDITORS

It is the Group's payment policy for the year ending 31 December 1997 to follow the CBI Prompt Payment Code for all suppliers. Information about the Code may be obtained from the CBI.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their reappointment will be submitted to the Annual General Meeting.

By Order of the Board



J L Bedford
Secretary

11 APRIL 1997

Cardiff Road
Barry
Vale of Glamorgan

Price Waterhouse



AUDITORS' REPORT TO THE SHAREHOLDERS OF DOW CORNING LIMITED AND SUBSIDIARIES

We have audited the financial statements on pages 5 to 25 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 and group'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 ultimate parent company, and the consequent impact upon the company and group. An adverse outcome of this proceeding could result in the group not receiving amounts due to it as of the filing date from Dow Corning Corporation, of which the balance outstanding at 31 December 1996 was £1,505,349. Furthermore, if Dow Corning Corporation were to become insolvent or otherwise cease to trade as a result of 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 accounts. 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 group as at 31 December 1996 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

11 APRIL 1997

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	<u>1996</u> £'000	<u>1995</u> £'000
TURNOVER - Continuing operations (Note 3)	208,903	205,992
COST OF SALES	<u>(179,561)</u>	<u>(172,070)</u>
GROSS PROFIT	29,342	33,922
Distribution costs	(7,705)	(9,071)
Administrative expenses	(14,955)	(12,423)
Other operating income	<u>(383)</u>	<u>1,119</u>
OPERATING PROFIT - Continuing operations	6,299	13,547
Loss on disposal of fixed assets	(393)	-
Interest receivable	336	786
Interest payable and similar charges (Note 4)	<u>(6,701)</u>	<u>(6,315)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 4)	(459)	8,018
Tax on (loss)/profit on ordinary activities (Note 5)	<u>27</u>	<u>(9)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR (Note 19)	(432)	8,009
RETAINED PROFIT BROUGHT FORWARD	<u>32,793</u>	<u>24,784</u>
RETAINED PROFIT CARRIED FORWARD (Note 18)	<u>32,361</u>	<u>32,793</u>

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 results for the year include all recognised gains and losses in the period.

The notes on pages 9 to 25 form part of these accounts.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 1996

	<u>1996</u> £'000	<u>1995</u> £'000
FIXED ASSETS		
Intangible assets (Note 6)	55	185
Tangible assets (Note 7)	<u>146,988</u>	<u>99,938</u>
	<u>147,043</u>	<u>100,123</u>
CURRENT ASSETS		
Stocks (Note 9)	20,610	22,323
Debtors (Note 10)	49,695	67,056
Cash at bank and in hand	<u>3,172</u>	<u>1,972</u>
	73,477	91,351
CREDITORS - Amounts falling due within one year (note 11)	<u>(77,695)</u>	<u>(104,347)</u>
NET CURRENT LIABILITIES	<u>(4,218)</u>	<u>(12,996)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	142,825	87,127
CREDITORS - Amounts falling due after more than one year (Note 12)	(99,165)	(41,933)
DEFERRED INCOME (Note 14)	<u>(2,711)</u>	<u>(3,813)</u>
	40,949	41,381
CAPITAL AND RESERVES	<u> </u>	<u> </u>
Called up share capital (Note 17)	5,250	5,250
Reserves (Note 18)	<u>35,699</u>	<u>36,131</u>
	40,949	41,381
APPROVED BY THE BOARD ON 11 APRIL 1997 AND SIGNED ON ITS BEHALF BY	<u> </u>	<u> </u>



JL BEDFORD
DIRECTOR

The notes on pages 9 to 25 form part of these accounts.

DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 1996

	<u>1996</u> £'000	<u>1995</u> £'000
FIXED ASSETS		
Intangible assets (Note 6)	-	-
Tangible assets (Note 7)	145,974	98,934
Investments (Note 8)	<u>4,320</u>	<u>4,320</u>
	<u>150,294</u>	<u>103,254</u>
CURRENT ASSETS		
Stocks (Note 9)	17,331	19,578
Debtors (Note 10)	48,306	64,701
Cash at bank and in hand	<u>965</u>	<u>394</u>
	66,602	84,673
CREDITORS - Amounts falling due within one year (Note 11)	<u>(73,368)</u>	<u>(100,477)</u>
NET CURRENT LIABILITIES	<u>(6,766)</u>	<u>(15,804)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	143,528	87,450
CREDITORS - Amounts falling due after more than one year (Note 12)	(99,096)	(41,857)
DEFERRED INCOME (Note 14)	<u>(2,711)</u>	<u>(3,813)</u>
	41,721	41,780
CAPITAL AND RESERVES		
Called up share capital (Note 17)	5,250	5,250
Reserves (Note 18)	<u>36,471</u>	<u>36,530</u>
	<u>41,721</u>	<u>41,780</u>

APPROVED BY THE BOARD ON 11 APRIL 1997
AND SIGNED ON ITS BEHALF BY



JL BEDFORD
DIRECTOR

The notes on pages 9 to 25 form part of these accounts.

DOW CORNING LIMITED AND SUBSIDIARIES

**GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1996**

	<u>1996</u> £'000	<u>1995</u> £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 23)	<u>17,950</u>	<u>24,948</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	336	786
Interest paid	<u>(12,465)</u>	<u>(2,624)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<u>(12,129)</u>	<u>(1,838)</u>
TAXATION		
Corporation tax paid	—	<u>(150)</u>
INVESTING ACTIVITIES		
Payments to acquire tangible fixed assets	<u>(60,781)</u>	<u>(38,253)</u>
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	<u>(60,781)</u>	<u>(38,253)</u>
NET CASH (OUTFLOW) BEFORE FINANCING	<u>(54,960)</u>	<u>(15,293)</u>
FINANCING		
New intercompany loans (Note 24)	109,593	9,587
Intercompany loan repayment (Note 24)	<u>(19,992)</u>	<u>(26,162)</u>
New external loans (Note 24)	—	31,482
Repayment of external loan (Note 24)	<u>(32,165)</u>	—
New finance lease and hire purchase obligations (Note 24)	45	236
Repayment of finance leases and hire purchase obligations (Note 24)	<u>(133)</u>	<u>(207)</u>
NET CASH INFLOW FROM FINANCING	<u>57,348</u>	<u>14,936</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (Note 25)	<u>2,388</u>	<u>(357)</u>

The notes on pages 9 to 25 form part of these accounts.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996

1 ACCOUNTING POLICIES

(1) Accounting convention

These accounts are prepared under the historical cost convention, as modified by the revaluation of freehold land and have been prepared in accordance with applicable accounting standards.

(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. Buildings and plant and equipment are depreciated over their useful lives according to the double declining balance method or straight line method except for computer equipment which is depreciated using only the straight line method. The lives applied are as follows:-

Buildings and leases	up to 50 years
Plant and machinery	3 - 11 years
Motor vehicles	3 - 4 years
Computer equipment	3 - 5 years

(3) 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.

(4) Stocks and work in progress

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

(5) Deferred taxation

Deferred taxation is provided under the liability method on timing differences arising between profits as computed for taxation purposes and profits as stated in the accounts, where they are expected to crystallise in the foreseeable future.

Deferred tax debit balances represent future tax benefits attributable to timing differences, and are accounted for only to the extent that they are expected to be recoverable without replacement by equivalent debit balances.

(6) 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 ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(7) Turnover

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

(8) 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.

(9) 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.

(10) Goodwill

The group's policy is to write off the value of goodwill over its useful economic life. Goodwill arising on the acquisition of Siltech Limited has been written off over 10 years.

(11) Basis of consolidation

The consolidated accounts incorporate the accounts of the company and its subsidiaries made up to 31 December 1996. The accounting period for Dow Corning STI Limited comprises the results for the period from 21 December 1995 to 31 December 1996.

(12) Pension costs

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.

Pension contributions to schemes providing benefits based on defined contributions are charged to the profit and loss account on the basis of the actual contributions paid.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

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. The ultimate parent company is now operating under the supervision of the Bankruptcy Court, and as such is authorised to operate its business but may not engage in transactions outside the ordinary course of business without Bankruptcy Court approval.

The Chapter 11 proceeding does not include any subsidiaries of Dow Corning Corporation, but as a result of the Chapter 11 filing, the creditors of the ultimate parent company, including the subsidiary companies, are precluded from collecting debts which arose prior to the filing for protection, other than with the approval of the Bankruptcy Court.

On 25 November 1996, the Bankruptcy Court granted the ultimate parent company's motion to allow for the offset of receivables and payables between the ultimate parent company and its subsidiaries existing as of 15 May 1995. The application of the offset procedure resulted in a reduction of £24,755,594 (net of £3.9 million currency revaluation) in the amount owed by the company and group to the ultimate parent company, and a corresponding reduction in the amount owed to the company and group by the ultimate parent company. Consequently, after application of the offset procedure, the company and group had net receivables from the ultimate parent company in the amount of £19,123,425 and net payables to the ultimate parent company in the amount of £51,657,966 which are included in these accounts. Included in the net receivable from the ultimate parent company is a balance of £1,505,349 which existed as of 15 May 1995 and which will be settled in 1997. There is a risk that Dow Corning Corporation might call for some amounts owed to it by the company or group to be paid immediately. In view of the directors, after taking account of all available information, the likelihood of this event happening in the near future is remote.

Under the provisions of Chapter 11 of the United States bankruptcy code, the ultimate parent company has the exclusive right to file a plan of reorganisation for a certain period of time (the Plan Exclusivity Period). The Plan Exclusivity Period has been extended from time to time and had not expired as of 31 December 1996. After the expiration of the Plan Exclusivity Period, as extended from time to time, any creditor has the right to file a plan or reorganisation with the Bankruptcy Court.

On 2 December 1996, the ultimate parent company filed its plan of reorganisation (Plan of Reorganisation or Plan) and related disclosure statement (Disclosure Statement) with the Bankruptcy Court. Under the Plan the ultimate parent company would commit up to \$3.0 billion to satisfy claims of the ultimate parent company's creditors. Specifically, the Plan would provide approximately \$1.0 billion to satisfy commercial claims which would be paid in full. In addition, the Plan would provide up to \$2.0 billion to resolve product liability claims if certain conditions are met.

Confirmation of a Plan of Reorganisation requires, among other things, acceptance of the Plan by the affirmative vote (in excess of 50% of the number and in excess of 66 2/3% of the dollar amount of the claims) of the creditors who vote in each class of creditors whose claims are impaired by the Plan of Reorganisation. The ultimate parent company is prohibited from soliciting acceptances of its Plan from creditors until after the Bankruptcy Court approves the adequacy of the Disclosure Statement. Absent the requisite approvals, the Bankruptcy Court may approve the ultimate parent company's plan, or a competing plan of reorganisation, under the "Cramdown" provisions of the Bankruptcy Code.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

2 CHAPTER 11 PROCEEDING (CONTINUED)

The directors are not aware of any other consequences of the Chapter 11 proceeding which could have a material impact on the results or operations of the company or group for the foreseeable future.

3 TURNOVER

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

	<u>1996</u> £'000	<u>1995</u> £'000
United Kingdom	82,720	78,803
Rest of the World	<u>126,183</u>	<u>127,189</u>
	<u>208,903</u>	<u>205,992</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.

4 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting) the following:

	<u>1996</u> £'000	<u>1995</u> £'000
Staff costs:		
Wages and salaries	21,066	18,521
Social security costs	1,702	1,512
Other pension costs	<u>3,266</u>	<u>1,851</u>
	<u>26,034</u>	<u>21,884</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

4 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

	<u>1996</u> £'000	<u>1995</u> £'000
Amortisation of intangible assets	130	130
Depreciation of owned assets	11,602	10,512
Depreciation of assets held under finance leases	630	1,503
Amortisation of government grants	(1,102)	(1,546)
Interest on loans (including bank overdrafts) wholly repayable within 5 years	600	2,850
Interest on other loans	4,485	267
Interest on overdue tax, royalties and interest	1,616	3,198
Research and development expenditure - current year	3,065	2,855
Hire of plant and machinery	1,472	1,512
Other operating lease rentals	770	784
Auditors' remuneration (including expenses)		
– Group	65	130
– Company	39	38
Net exchange loss/(gain) on foreign currency	558	(1,193)
Loss on disposal of fixed assets	393	-

Fees payable to auditors in the year for non-audit work for the group amounted to £63,000 (1995 - £65,000)

5 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u> £'000	<u>1995</u> £'000
UK corporation tax at 33% (1995 - 33%)	358	989
Prior year under/(over) provision	43	(190)
ACT previously written off as irrecoverable now regarded as recoverable	(84)	(384)
Deferred tax previously written off now regarded as recoverable	<u>(344)</u>	<u>(406)</u>
	<u>(27)</u>	<u>9</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

6 INTANGIBLE ASSETS

<u>GROUP</u>	<u>Covenants</u> £'000	<u>Goodwill</u> £'000	<u>Total</u> £'000
COST			
At 1 January and 31 December 1996	<u>1,050</u>	<u>1,303</u>	<u>2,353</u>
ACCUMULATED AMORTISATION			
At 1 January 1996	1,050	1,118	2,168
Charge for the year	<u>-</u>	<u>130</u>	<u>130</u>
At 31 December 1996	<u>1,050</u>	<u>1,248</u>	<u>2,298</u>
NET BOOK AMOUNT			
At 31 December 1996	-	55	55
	<u>=====</u>	<u>=====</u>	<u>=====</u>
At 31 December 1995	-	185	185
	<u>=====</u>	<u>=====</u>	<u>=====</u>
<u>COMPANY</u>	<u>Covenants</u> £'000		<u>Total</u> £'000
COST			
At 1 January and 31 December 1996	<u>1,050</u>		<u>1,050</u>
ACCUMULATED AMORTISATION			
At 1 January 1996	1,050		1,050
Charge for the year	<u>-</u>		<u>-</u>
At 31 December 1996	<u>1,050</u>		<u>1,050</u>
NET BOOK AMOUNT			
At 31 December 1996	-		-
	<u>=====</u>		<u>=====</u>
At 31 December 1995	-		-
	<u>=====</u>		<u>=====</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

7 TANGIBLE ASSETS - GROUP

	<u>Assets under lease</u>		<u>Owned assets</u>			<u>Total</u>
	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Land and building</u>	<u>Plant and equipment</u>	<u>Assets under construction</u>	
	£'000	£'000	£'000	£'000	£'000	£'000
COST OR VALUATION						
At 1 January 1996	2,894	36,324	14,704	123,689	49,426	227,037
Additions	39	45	-	96	59,503	59,683
Transfers	-	-	4,614	6,786	(11,400)	-
Disposals	-	(54)	-	(730)	-	(784)
At 31 December 1996	<u>2,933</u>	<u>36,315</u>	<u>19,318</u>	<u>129,841</u>	<u>97,529</u>	<u>285,936</u>
ACCUMULATED DEPRECIATION						
At 1 January 1996	1,305	35,647	5,428	84,719	-	127,099
Charge for the year	122	508	479	11,123	-	12,232
Transfers	-	-	-	-	-	-
Disposals	-	(54)	-	(329)	-	(383)
At 31 December 1996	<u>1,427</u>	<u>36,101</u>	<u>5,907</u>	<u>95,513</u>	<u>-</u>	<u>138,948</u>
NET BOOK AMOUNT						
At 31 December 1996	<u>1,506</u>	<u>214</u>	<u>13,411</u>	<u>34,328</u>	<u>97,529</u>	<u>146,988</u>
At 31 December 1995	<u>1,589</u>	<u>677</u>	<u>9,276</u>	<u>38,970</u>	<u>49,426</u>	<u>99,938</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

7 TANGIBLE ASSETS (CONTINUED) - COMPANY

	<u>Assets under lease</u>		<u>Owned assets</u>			<u>Total</u>
	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Land and building</u>	<u>Plant and equipment</u>	<u>Assets under construction</u>	
	£'000	£'000	£'000	£'000	£'000	£'000
COST OR VALUATION						
At 1 January 1996	2,894	36,324	13,698	121,973	49,426	224,315
Additions	-	45	-	-	59,503	59,548
Transfers	-	-	4,614	6,786	(11,400)	-
Disposals	-	(54)	-	(730)	-	(784)
At 31 December 1996	<u>2,894</u>	<u>36,315</u>	<u>18,312</u>	<u>128,029</u>	<u>97,529</u>	<u>283,079</u>
ACCUMULATED DEPRECIATION						
At 1 January 1996	1,305	35,647	5,232	83,197	-	125,381
Charge for the year	80	508	472	11,047	-	12,107
Transfers	-	-	-	-	-	-
Disposals	-	(54)	-	(329)	-	(383)
At 31 December 1996	<u>1,385</u>	<u>36,101</u>	<u>5,704</u>	<u>93,915</u>	<u>-</u>	<u>137,105</u>
NET BOOK AMOUNT						
At 31 December 1996	<u>1,509</u>	<u>214</u>	<u>12,608</u>	<u>34,114</u>	<u>97,529</u>	<u>145,974</u>
At 31 December 1995	<u>1,589</u>	<u>677</u>	<u>8,466</u>	<u>38,776</u>	<u>49,426</u>	<u>98,934</u>

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. The historic cost of the freehold land is £.553,000 (1995: £553,000). The amounts of the valuations are as follows:

	<u>1996</u> £'000	<u>1995</u> £'000
Freehold land	<u>828</u>	<u>828</u>

No depreciation is provided on freehold land.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

7 TANGIBLE ASSETS (CONTINUED)

Future capital expenditure not provided for in these accounts:

	<u>1996</u> <u>£'000</u>	<u>Group</u> <u>1995</u> <u>£'000</u>
Contracts placed	37,563	15,083
Authorised by the directors but contracts not yet placed	<u>67,302</u>	<u>35,695</u>
	104,865	50,778
	<u><u> </u></u>	<u><u> </u></u>

8 INVESTMENTS

As at 31 December 1996 the cost of investments represents solely the cost of shares in two wholly owned subsidiaries. Their names, countries of registration and registered numbers are:

Dow Corning Hansil Limited	- England	- 1989254
Dow Corning STI Limited	- England	- 2052980

Dow Corning STI Limited is engaged in elastomer compounding, operating in the UK. Dow Corning Hansil Limited is engaged in the distribution of household and building sealants, also operating in the UK.

During 1992 Siltech Limited, a subsidiary company, was dissolved. The directors are of the opinion that, since the business and net assets of the company have been wholly transferred to Dow Corning STI Limited, the goodwill arising from the acquisition of Siltech Limited can continue to be carried forward in the group accounts and amortised over its remaining economic life.

9 STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Raw materials and consumables	6,249	6,303	4,885	5,133
Work in progress	-	4,458	-	4,364
Finished goods and goods for resale	<u>14,361</u>	<u>11,562</u>	<u>12,446</u>	<u>10,081</u>
	20,610	22,323	17,331	19,578
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></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 ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

10 DEBTORS

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade debtors	15,519	13,010	8,622	6,669
Amounts owed by group undertakings	28,165	49,235	33,846	53,483
Other debtors and prepayments	<u>6,011</u>	<u>4,811</u>	<u>5,838</u>	<u>4,549</u>
	49,695	67,056	48,306	64,701
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

No amounts are due after more than one year.

11 CREDITORS - Amounts falling due within one year

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Bank overdraft	96	1,284	96	1,284
Obligations under finance leases and hire purchase contracts (Note 13)	121	125	121	125
Trade creditors	12,907	9,814	12,230	8,991
Amounts owed to group undertakings	58,916	85,991	56,922	82,974
Loans from group undertakings (Note 15)	-	-	500	1,600
Employee taxation and social security	1,175	558	519	487
Taxation	541	780	-	-
Accruals	<u>3,939</u>	<u>5,795</u>	<u>2,980</u>	<u>5,016</u>
	77,695	104,347	73,368	100,477
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The bank overdraft is repayable on demand.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

12 CREDITORS - Amounts falling due after more than one year

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Loans from group undertakings (Note 15)	99,000	9,512	99,000	9,512
External loans	-	32,165	-	32,165
Obligations under finance leases and hire purchase contracts (Note 13)	96	180	96	180
Accruals	69	76	-	-
	99,165	41,933	99,096	41,857

13 FINANCE LEASE AND HIRE PURCHASE OBLIGATIONS - GROUP AND COMPANY

	1996	1995
	£'000	£'000
Falling due:		
Within one year	144	143
Between one and five years	107	210
	251	353
Finance charges	(34)	(48)
	217	305
Falling due within one year (Note 11)	121	125
Falling due after more than one year (Note 12)	96	180
	217	305

14 DEFERRED INCOME

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Balance at 1 January	3,813	5,359	3,813	5,359
Release to profit and loss account	(1,102)	(1,546)	(1,102)	(1,546)
Grant received	-	-	-	-
Balance at 31 December	2,711	3,813	2,711	3,813

The above amounts represent government grants received and are accounted for in accordance with the accounting policy referred to in note 1(3).

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

15 LOANS FROM GROUP UNDERTAKINGS

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
(a) Unsecured loan from Dow Corning SA. This is borrowed under a 10 year Revolving Credit Agreement and is repayable within 35 days of the date of the advance or at any later date at the request of Dow Corning SA. The Interest rate is 1 month LIBOR plus 1% fixed monthly	-	9,512	-	9,512
(b) Secured (£) loan from ultimate parent company, under a £250 million revolving Credit Agreement dated 29 February 1996; the interest rate is 1 month LIBOR plus 1% fixed monthly	99,000	-	99,000	-
(c) Unsecured Sterling loan from Dow Corning STI Limited to Dow Corning Limited bearing interest 6 month LIBOR	-	-	500	1,600
	99,000	9,512	99,500	11,112
	<u>99,000</u>	<u>9,512</u>	<u>99,500</u>	<u>11,112</u>
Falling due within one year	-	-	500	1,600
Falling due after one year	<u>99,000</u>	<u>9,512</u>	<u>99,000</u>	<u>9,512</u>
	<u>99,000</u>	<u>9,512</u>	<u>99,500</u>	<u>11,112</u>

In addition to the interest paid on the £250 million revolving credit loan the company also pays a variable fee of 3/8 of 1% on the average daily unused portion of the facility.

This is payable on the last day of each calendar quarter.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

16 OPERATING LEASE COMMITMENTS

The amount of rentals payable by the group in the year ended 31 December 1996 in respect of rentals under operating leases is as follows:

	Land and buildings £'000	Other £'000	Total operating lease rentals payable in 1996 £'000
Commitment expiring in 1997	52	237	289
Commitment expiring 1997 - 2001 inclusive		602	602
Commitment expiring after 2001	<u>210</u>	<u>5</u>	<u>215</u>
	<u>262</u>	<u>844</u>	<u>1,106</u>

The amounts payable by the company only are not materially different to the amounts above.

17 CALLED UP SHARE CAPITAL

	1996 Number (thousand)	1995 Number (thousand)	1996 £'000	Company 1995 £'000
Authorised:				
Ordinary shares of £1 each	5,250	5,250	5,250	5,250
Issued and fully paid:				
Ordinary shares of £1 each	<u>5,250</u>	<u>5,250</u>	<u>5,250</u>	<u>5,250</u>

18 RESERVES

	1996 £'000	1995 £'000	1996 £'000	Company 1995 £'000
PROFIT AND LOSS ACCOUNT				
At 1 January	32,793	24,784	33,192	25,357
(Loss)/profit for the year	<u>(432)</u>	<u>8,009</u>	<u>(59)</u>	<u>7,835</u>
At 31 December	<u>32,361</u>	<u>32,793</u>	<u>33,133</u>	<u>33,192</u>
SHARE PREMIUM	3,063	3,063	3,063	3,063
REVALUATION RESERVE	<u>275</u>	<u>275</u>	<u>275</u>	<u>275</u>
TOTAL RESERVES AT 31 DECEMBER	<u>35,699</u>	<u>36,131</u>	<u>36,471</u>	<u>36,530</u>

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

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
(Loss)/profit for the financial year	<u>(432)</u>	<u>8,009</u>	<u>(59)</u>	<u>7,835</u>
Net addition to shareholders' funds	(432)	8,009	(59)	7,835
Opening shareholders' funds	<u>41,381</u>	<u>33,372</u>	<u>41,780</u>	<u>33,945</u>
Closing shareholders' funds	<u>40,949</u>	<u>41,381</u>	<u>41,721</u>	<u>41,780</u>

Shareholders' funds are entirely attributable to equity shareholders.

20 PENSION COMMITMENTS

The company operates two pension schemes, one for staff and one for industrial staff, providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company in an independently administered fund. Contributions to the schemes 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 a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 December 1995. 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 9% per annum, salary increases would average 7% per annum and that present and future pensions would increase at the rate of 4% per annum.

The actuarial valuation at 31 December 1995 showed that the market value of the schemes' assets was £64.2m and that the actuarial value of those assets represented 81% and 79% of the benefits accrued to members of the staff and industrial staff schemes respectively, having taken account of expected future increase in earnings.

The above actuarial valuation indicated a deficit of £2,672,000 in respect of the industrial staff pension scheme and a deficit of £9,050,000 in respect of the staff pension scheme. These amounts are being funded over the average expected remaining service lives of the employees of each scheme, which have been estimated as 18 and 16 years respectively.

The subsidiaries operate defined contribution pension schemes. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. The charge in respect of pension costs represents contributions payable by the subsidiaries to the funds.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

20 PENSION COMMITMENTS (CONTINUED)

Amounts charged to pensions for the year were as follows:	<u>1996</u> £'000	<u>1995</u> £'000
Dow Corning Limited	2,066	1,482
Dow Corning STI Limited	137	82
Dow Corning Hansil Limited	<u>117</u>	<u>104</u>
	2,320	1,668
	<u>=====</u>	<u>=====</u>

The company has made additional contributions of £0.25m and £0.35m into the industrial scheme and staff scheme in 1996 which are included in the above accounts. It is expected that £0.25m additional contributions will be paid into both schemes in 1997

21 EMPLOYEES

The average number of persons employed by the group during the year was 737 (1995- 671). These persons were all employed in the United Kingdom.

22 DIRECTORS' EMOLUMENTS

	<u>1996</u> £'000	<u>1995</u> £'000
Total directors' emoluments including pension contributions were:	294	254
	<u>=====</u>	<u>=====</u>

The emoluments of the directors (excluding pension contributions) for the year were:

Highest paid director	<u>107</u>	<u>116</u>
	<u>=====</u>	<u>=====</u>
Chairman	-	-
	<u>=====</u>	<u>=====</u>

	<u>Number</u>	<u>Number</u>
Nil - £5,000	8	4
£10,001 - £15,000	-	1
£25,001 - £30,000	-	1
£65,001 - £70,000	1	-
£75,001 - £80,000	-	1
£95,001 - £100,000	-	1
£100,001 - £105,000	1	-
£105,001 - £110,000	<u>1</u>	<u>-</u>
	11	8
	<u>=====</u>	<u>=====</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

23 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1996</u> £'000	<u>Group</u> <u>1995</u> £'000
Operating profit	6,299	13,547
Depreciation charges	12,232	12,015
Amortisation of intangible assets	130	130
Amortisation of grant	(1,102)	(1,546)
Loss on translation of loans	113	581
Decrease in stocks	1,713	186
Decrease/(increase) in debtors	17,361	(18,992)
(Decrease)/increase in creditors	<u>(18,796)</u>	<u>19,028</u>
Net cash inflow from operating activities	<u>17,950</u>	<u>24,949</u>

24 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<u>1996</u>			<u>1995</u>		
	<u>External</u> <u>loans</u> £'000	<u>Finance</u> <u>leases</u> £'000	<u>Intercompany</u> <u>loans</u> £'000	<u>External</u> <u>loans</u> £'000	<u>Finance</u> <u>leases</u> £'000	<u>Intercompany</u> <u>loans</u> £'000
Balance at 1 January	32,165	305	9,512	-	276	26,189
Repayments	(32,165)	(133)	(19,992)	-	(207)	(26,162)
Receipts	-	45	109,593	31,482	236	9,587
Retranslation	<u>-</u>	<u>-</u>	<u>(113)</u>	<u>683</u>	<u>-</u>	<u>(102)</u>
Balance at 31 December	<u>-</u>	<u>217</u>	<u>99,000</u>	<u>32,165</u>	<u>305</u>	<u>9,512</u>

25 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>1996</u> £'000	<u>1995</u> £'000	<u>Change</u> <u>in year</u> £'000
Cash at bank and in hand	3,172	1,972	1,200
Bank overdrafts	<u>(96)</u>	<u>(1,284)</u>	<u>1,188</u>
	<u>3,076</u>	<u>688</u>	<u>2,388</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

26 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>1996</u> £'000	<u>1995</u> £'000
Balance at 1 January	688	1,045
Net cash inflow/(outflow)	<u>2,388</u>	<u>(357)</u>
Balance at 31 December	<u>3,076</u>	<u>688</u>

27 ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The ultimate 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

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 group.