

14 - 06 - 02

Dow Corning Limited and subsidiaries
(Registered Number 486170)

Directors' report and financial statements

31 December 2001



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(Registered Number 486170)

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DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001

The directors present their report and financial statements for the financial year ended 31 December 2001 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 £22.4 million, (2000 loss of £10.7 million). This improvement has resulted from the company's recent capital investment which has enabled the company to significantly increase its output. It is anticipated that further increases in output in 2002 and succeeding years will bring the company back into profit.

The company now provides approximately 50% of the Dow Corning Corporation Group's global capacity for the manufacture of Di-methyl. During the year, Dow Corning Corporation increased its investment in the company's share capital by £44.75 million.

In October 2001 the company went through a cost reduction programme which gave rise to an exceptional charge of £2.7 million.

The directors do not recommend the payment of a dividend (2000 - £Nil).

DOW CORNING LIMITED AND SUBSIDIARIES**REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2001 (CONTINUED)****CHAPTER 11 PROCEEDING**

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

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

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

DOW CORNING LIMITED AND SUBSIDIARIES**REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2001 (CONTINUED)****DIRECTORS**

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

R C Pitcher	
D Golsong	
D R Pratt	(resigned 2 May 2001)
N Whitfield	(resigned 31 March 2001)
R.Krasa	(resigned 2 April 2001)
T Strange	(appointed 18 January 2001)
C Bowyer	(appointed 20 April 2001)
J Sanderson	(appointed 7 June 2001)

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 obtaining a better understanding of its products and processes and to developing new product concepts to meet changing customer requirements.

POLITICAL AND CHARITABLE DONATIONS

During the year the group made donations of £69,000 (2000 - £40,000) for charitable purposes and no contributions to political parties (2000 - £Nil).

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001 (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 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 15 days (2000: 16) of purchases outstanding with trade creditors.

AUDITORS

A resolution to re-appoint PricewaterhouseCoopers will be proposed at the Annual General Meeting.

By Order of the Board


EA ROCHFORD

Secretary dated 6th March 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DOW CORNING LIMITED

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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

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

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.

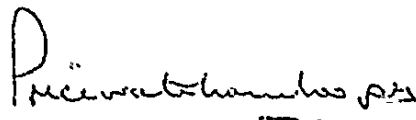
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2001 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.



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

6 March 2002

DOW CORNING LIMITED AND SUBSIDIARIES
GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £'000	2000 £'000
TURNOVER (Notes 1 and 3)	284,430	256,513
COST OF SALES	(276,590)	(279,033)
GROSS PROFIT/(LOSS)	7,840	(22,520)
Distribution costs	(8,284)	(9,543)
Administrative expenses	(13,277)	(13,662)
EBITDA/(LBITDA)	22,391	(10,742)
Depreciation	(36,112)	(34,983)
OPERATING LOSS (Note 4)	(13,721)	(45,725)
Profit on sale of sealants business	-	1,349
(Loss) on disposal of fixed assets	(1,482)	(239)
Interest receivable	177	139
Interest payable and similar charges (Note 7)	(22,274)	(24,365)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(37,300)	(68,841)
Tax on loss on ordinary activities (Note 8)	—(62)	—(498)
LOSS FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES (Note 20)	(37,362)	(69,339)
RETAINED (LOSS) BROUGHT FORWARD	(86,139)	(16,800)
RETAINED (LOSS) CARRIED FORWARD	(123,501)	(86,139)

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 11 to 30 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 2001

	2001 £'000	2000 £'000
FIXED ASSETS		
Tangible assets (Note 9)	349,403	367,687
CURRENT ASSETS		
Stocks (Note 11)	33,960	30,160
Debtors (Note 12)	92,880	86,590
Cash at bank and in hand	<u> </u>	<u>2,026</u>
	126,840	118,776
CREDITORS - Amounts falling due within one year (Note 13)	(221,405)	(212,513)
NET CURRENT LIABILITIES	(94,565)	(93,737)
TOTAL ASSETS LESS CURRENT LIABILITIES	254,838	273,950
CREDITORS - Amounts falling due after more than one year (Note 14)	(225,001)	(250,511)
PROVISIONS FOR LIABILITIES AND CHARGES (Note 16)	<u> </u>	<u>(990)</u>
NET ASSETS	<u>29,837</u>	<u>22,449</u>
CAPITAL AND RESERVES		
Called up share capital (Note 19)	150,000	105,250
Reserves: (Note 20)		
Profit and loss account	(123,501)	(86,139)
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(120,163)	(82,801)
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 21)	<u>29,837</u>	<u>22,449</u>

APPROVED BY THE BOARD ON 6th MARCH 2002
AND SIGNED ON ITS BEHALF BY

T. Strange

T. STRANGE, DIRECTOR

The notes on pages 11 to 30 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 2001

	2001 £'000	2000 £'000
FIXED ASSETS		
Tangible assets (Note 9)	349,403	366,768
Investments (Note 10)	<u>2,278</u>	<u>3,696</u>
	351,681	370,464
CURRENT ASSETS		
Stocks (Note 11)	33,960	29,215
Debtors (Note 12)	92,880	85,409
Cash at bank and in hand	<u>-</u>	<u>1,745</u>
	126,840	116,369
CREDITORS - Amounts falling due within one year (Note 13)	<u>(223,728)</u>	<u>(212,596)</u>
NET CURRENT LIABILITIES	<u>(96,888)</u>	<u>(96,227)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	254,793	274,237
CREDITORS - Amounts falling due after more than one year (Note 14)	<u>(225,001)</u>	<u>(250,511)</u>
NET ASSETS	<u>29,792</u>	<u>23,726</u>
CAPITAL AND RESERVES		
Called up share capital (Note 19)	150,000	105,250
Reserves: (Note 20)		
Profit and loss account	(123,546)	(84,862)
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(120,208)	(81,524)
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 21)	<u>29,792</u>	<u>23,726</u>

APPROVED BY THE BOARD ON 6th MARCH 2002
AND SIGNED ON ITS BEHALF BY



T. STRANGE, DIRECTOR

The notes on pages 11 to 30 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2001 £'000	2000 £'000
Operating (loss)	(13,721)	(45,725)
Depreciation and Amortisation charges	36,112	34,983
Amortisation of grant income	(129)	(208)
(Increase) in stocks	(3,800)	(1,308)
(Increase) in debtors	(6,290)	(21,062)
(Decrease)/increase in provisions	(990)	990
Increase / (decrease) in creditors	<u>2,453</u>	<u>(6,410)</u>
Net cash inflow/ (outflow) from operating activities	<u>13,635</u>	<u>(38,740)</u>

CASH FLOW STATEMENT (Note 22)

Net cash inflow/ (outflow) from operating activities	13,635	(38,740)
Returns on investments and servicing of finance	(18,857)	(17,368)
Taxation paid	(420)	(419)
Capital expenditure	<u>(19,309)</u>	<u>(29,318)</u>
	(24,951)	(85,845)
Management of liquid resources	-	-
Financing	<u>22,840</u>	<u>88,081</u>
(Decrease)/increase in cash	<u>(2,111)</u>	<u>2,236</u>

Reconciliation of net cash flow to movement in net debt (Note 23)

(Decrease)/increase in cash in period	(2,111)	2,236
Cash used to increase liquid resources	<u>40,927</u>	<u>11,918</u>
Change in net debt resulting from cash flows	38,816	14,154
Non-cash movement in net debt	(17,680)	793
Net debt at 1 January 2001	<u>(273,646)</u>	<u>(288,593)</u>
Net debt at 31 December 2001	<u>(252,510)</u>	<u>(273,646)</u>

The notes on pages 11 to 30 form part of these financial statements

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

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.

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

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

(3) Interest capitalisation

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

(4) Government grants

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

(5) Stocks and work in progress

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

**DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001**

1 ACCOUNTING POLICIES (CONTINUED)

(6) 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.

(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 2001**

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 2001**

2 CHAPTER 11 PROCEEDING

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

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

The company and group has net receivables from the Ultimate Parent Company in the amount of £13,728,000 and net payables to the parent company in the amount of £370,218,000 which are included in these accounts. There is a risk that the Ultimate Parent Company may call for some amounts owed to it by the company or group to be paid immediately. In the view of the directors, after taking account of all available information, the likelihood of this event happening in the near future is remote.

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

Following the issuance of the Confirmation Order, various appeals of the Confirmation Order were filed with the U.S. District Court in Michigan. On 13 November 2000, the US District Court in Michigan affirmed the Bankruptcy Court's Confirmation Order. There have been twelve appeals of the US District Court in Michigan's November 13 2000 ruling, to the relevant US Court of Appeals. On 23 October 2001, the US Court of Appeals heard oral arguments relative to these appeals. On 29 January 2002, the US Court of Appeals issued an opinion requiring the US District Court in Michigan to conduct further proceedings for the purposes of factually and procedurally supporting some of the prior rulings and orders of the Bankruptcy Court's confirmation of the Joint Plan of Reorganisation.

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

DOW CORNING LIMITED AND SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2001

2 CHAPTER 11 PROCEEDING (CONTINUED)

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

3 TURNOVER

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

	2001 £'000	2000 £'000
United Kingdom	69,352	79,840
Rest of the World	215,078	176,673
	<u>284,430</u>	<u>256,513</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.

4 OPERATING LOSS

The operating loss is after charging / (crediting) as follows:

	2001 £'000	2000 £'000
Depreciation of owned assets	36,082	34,955
Depreciation of assets held under finance leases	30	28
Hire of plant and machinery	1,682	1,786
Other operating lease rentals	486	537
Auditors' remuneration (including expenses)		
– Group	47	56
– Company	39	40
Net exchange loss on foreign currency	511	341
Release of deferred grant income	(129)	(208)
Reorganisation costs	2,657	4,096
	<u> </u>	<u> </u>

Fees payable to auditors in the year for non-audit work for the group amounted to £47,000 (2000 - £62,000).

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

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

5 STAFF COSTS

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Wages and salaries	30,626	35,229
Redundancy	2,392	2,965
Social security costs	2,584	2,771
Pension costs	<u>4,161</u>	<u>4,022</u>
	<u>39,763</u>	<u>44,987</u>

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

	<u>2001</u>	<u>2000</u>
	<u>Number</u>	<u>Number</u>
Management and administration	52	62
Production and research	674	807
Sales	<u>40</u>	<u>43</u>
	<u>766</u>	<u>912</u>

These persons were all employed in the United Kingdom.

6 DIRECTORS' EMOLUMENTS

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Emoluments	<u>536</u>	<u>518</u>
Compensation for loss of office	<u>247</u>	<u>—</u>
Highest paid director:		
Total amount of emoluments	<u>199</u>	<u>287</u>
Accrued pension at end of year	<u>—82</u>	<u>—</u>

The number of directors participating in the company's defined benefit pension scheme was 2 (2000: 1).

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

7 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2001</u> £'000	<u>2000</u> £'000
Interest on bank loans	8	15
Interest on loans from group undertakings	<u>22,266</u>	<u>24,350</u>
	<u>22,274</u>	<u>24,365</u>

8 TAX ON LOSS ON ORDINARY ACTIVITIES

	<u>2001</u> £'000	<u>2000</u> £'000
UK corporation tax at 30% (2000 - 30%)	145	1,454
Advanced corporation tax written back	(123)	(969)
Prior year under provision	<u>40</u>	<u>13</u>
	<u>62</u>	<u>498</u>

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

9 TANGIBLE ASSETS - GROUP

	<u>Assets under short term lease</u>		<u>Owned assets</u>			
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation						
At 1 January 2001	549	9	66,670	464,104	32,761	564,093
Additions	-	-	2,301	10,436	6,572	19,309
Transfers	189	-	3,228	28,291	(31,708)	-
Disposals	(549)	-	-	(2,238)	(589)	(3,376)
At 31 December 2001	189	9	72,199	500,593	7,036	580,026
Accumulated Depreciation						
At 1 January 2001	210	2	11,151	185,043	-	196,406
Charge for the year	28	2	2,962	33,120	-	36,112
Disposals	(222)	-	-	(1,673)	-	(1,895)
At 31 December 2001	16	4	14,113	216,490	-	230,623
Net Book Amount						
At 31 December 2001	173	5	58,086	284,103	7,036	349,403
At 31 December 2000	339	7	55,519	279,061	32,761	367,687

DOW CORNING LIMITED AND SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2001

9 TANGIBLE ASSETS (CONTINUED) - COMPANY

	Assets under short term lease		Owned assets			
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation						
At 1 January 2001	-	9	66,670	462,089	32,699	561,467
Additions	-	-	2,301	10,433	6,572	19,306
Transfers	189	-	3,228	28,229	(31,646)	
Disposals	-	-	-	(158)	(589)	(747)
At 31 December 2001	<u>189</u>	<u>9</u>	<u>72,199</u>	<u>500,593</u>	<u>7,036</u>	<u>580,026</u>
Accumulated Depreciation						
At 1 January 2001	-	2	11,150	183,547	-	194,699
Charge for the year	16	2	2,961	33,092	-	36,071
Disposals	-	-	-	(147)	-	(147)
At 31 December 2001	<u>16</u>	<u>4</u>	<u>14,111</u>	<u>216,492</u>	<u>-</u>	<u>230,623</u>
Net Book Amount						
At 31 December 2001	<u>173</u>	<u>5</u>	<u>58,088</u>	<u>284,101</u>	<u>7,036</u>	<u>349,403</u>
At 31 December 2000	<u>-</u>	<u>7</u>	<u>55,520</u>	<u>278,542</u>	<u>32,699</u>	<u>366,768</u>

Included within Plant and equipment above is capitalised interest with a net book value of £46,936,000 (2000: £52,152,000) and commissioning costs with a net book value of £3,273,000 (2000: £3,636,000). No interest was capitalised during the year.

DOW CORNING LIMITED AND SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2001

9 TANGIBLE ASSETS (CONTINUED)

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 (2000: £553,000). The amounts of the valuations are as follows:

	<u>2001</u>	<u>2000</u>
	£'000	£'000
Freehold land	828	828

Future capital expenditure not provided for in these accounts:

	<u>Group and Company</u>	
	<u>2001</u>	<u>2000</u>
	£'000	£'000
Contracts placed	7,097	19,392

10 INVESTMENTS

As at 31 December 2001 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 was engaged in elastomer compounding in the UK, but ceased trading in September 2001. Dow Corning Hansil Limited is a dormant company.

11 STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Raw materials and consumables	17,829	15,834	17,829	15,481
Finished goods and goods for resale	16,131	14,326	16,131	13,734
	33,960	30,160	33,960	29,215

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 2001

12 DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Trade debtors	13,072	16,083	13,072	12,630
Amounts owed by group undertakings	67,356	56,619	67,356	58,899
Pension fund prepayment	9,461	9,168	9,461	9,168
Other debtors and prepayments	<u>2,991</u>	<u>4,720</u>	<u>2,991</u>	<u>4,712</u>
	<u>92,880</u>	<u>86,590</u>	<u>92,880</u>	<u>85,409</u>

13 CREDITORS - Amounts falling due within one year

	<u>Group</u>		<u>Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Overdraft at bank	85	-	85	-
Obligations under finance leases and hire purchase contracts (Note 15)	1	2	1	2
Trade creditors	3,954	11,668	3,954	11,300
Amounts owed to group undertakings	182,874	170,168	185,197	171,171
Loans from group undertakings (Note 17)	19,177	16,084	19,177	16,084
Employee taxation and social security	822	871	822	827
Accruals	13,975	13,223	13,975	13,083
Deferred grant income	508	129	508	129
Taxation	<u>9</u>	<u>368</u>	<u>9</u>	<u>-</u>
	<u>221,405</u>	<u>212,513</u>	<u>223,728</u>	<u>212,596</u>

An unlimited cross guarantee dated 16 October 1995 exists between Dow Corning Limited and its subsidiaries for the bank overdraft facility available to the group.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

14 CREDITORS - Amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Loans from group undertakings (Note 17)	225,000	250,000	225,000	250,000
Obligations under finance leases and hire purchase contracts (Note 15)	1	3	1	3
Deferred grant income	<u> </u>	<u>508</u>	<u> </u>	<u>508</u>
	<u>225,001</u>	<u>250,511</u>	<u>225,001</u>	<u>250,511</u>

15 FINANCE LEASE AND HIRE PURCHASE OBLIGATIONS

	Group and Company	
	2001	2000
	£'000	£'000
Falling due:		
Within one year	3	3
Between one and five years	2	6
	5	9
Finance charges	(3)	(4)
	<u>2</u>	<u>5</u>
Falling due within one year (Note 13)	1	2
Falling due after more than one year (Note 14)	1	3
	<u>2</u>	<u>5</u>

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2001	2000
	£'000	£'000
Reorganisation costs	<u> </u>	<u>990</u>

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

17 LOANS FROM GROUP UNDERTAKINGS

	<u>Group and Company</u>	
	<u>2001</u>	<u>2000</u>
	£'000	£'000
(a) Secured (£) loan from ultimate parent company, under a £250 million revolving Credit Agreement dated 29 February 1996 expiring 31 December 2005; the interest rate is 6 month LIBOR plus 1%.	225,000	250,000
(b) Unsecured (JPY) loan from Dow Corning Toray Silicones under a 3,000,000,000 JPY revolving Credit Agreement dated 16 October 2000 expiring 30 September 2003; the interest rate is TIBO plus 0.45%	15,762	12,282
(c) Unsecured (JPY) loan from Dow Corning Asia Limited under a 1,000,000,000 JPY revolving Credit Agreement dated 25 October 2000 expiring 30 September 2003; the interest rate is TIBO plus 0.25%	3,415	3,802

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

DOW CORNING LIMITED AND SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2001

18 DEFERRED TAXATION

Deferred taxation provided in the accounts and the amounts not provided is as follows:

	Group			
	Provided		Not Provided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Accelerated Capital Allowances	63,424	63,081	-	-
Short term timing differences	(27,643)	(24,156)	-	-
Losses	(25,781)	(38,925)	(62,379)	(51,217)
	<u> </u>	<u> </u>	<u>(62,379)</u>	<u>(51,217)</u>

	Company			
	Provided		Not provided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Accelerated Capital Allowances	63,424	63,052	-	-
Short term timing differences	(27,643)	(23,856)	-	-
Losses	(35,781)	(39,196)	(62,379)	(50,946)
	<u> </u>	<u> </u>	<u>(62,379)</u>	<u>(50,946)</u>

19 CALLED UP SHARE CAPITAL

	Company	
	2001 £'000	2000 £'000
Authorised:		
165,250,000 (2000: 165,250,000) Ordinary shares of £1 each	165,250	165,250
Allotted, issued and fully paid		
150,000,000 (2000: 105,250,000) Ordinary shares of £1 each	150,000	105,250

During the year the company issued 44,750,000 Ordinary shares of £1 each to its parent company Dow Corning Corporation. The share issue has provided further additional funding for ongoing capital expenditure as well as for general corporate activity.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

20 RESERVES

	Group £'000	Company £'000
PROFIT AND LOSS		
At 1 January 2001	(86,139)	(84,862)
(Loss) for the year	(37,362)	(38,684)
At 31 December 2001	(123,501)	(123,546)
SHARE PREMIUM		
At 31 December 2001 and 2000	3,063	3,063
REVALUATION RESERVE		
At 31 December 2001 and 2000	275	275
TOTAL RESERVES AT 31 DECEMBER 2001	(120,163)	(120,208)

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

21 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Loss for the financial year	(37,362)	(69,339)	(38,684)	(69,942)
Increase in share capital	44,750	100,000	44,750	100,000
Opening shareholders' funds	22,449	(8,212)	23,726	(6,332)
Closing shareholders' funds	29,837	22,449	29,792	23,726

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001

22 GROSS CASH FLOWS

	2001 £'000	Group 2000 £'000
Returns on Investments and Servicing of Finance		
Interest received	177	139
Interest paid	(19,034)	(17,507)
	(18,857)	(17,368)
Capital Expenditure		
Payments to acquire tangible fixed assets	(19,309)	(29,318)
Receipts from the sale of tangible fixed assets	—	—
	(19,309)	(29,318)
Financing		
Issuing of ordinary share capital	44,750	100,000
New Intercompany loans	3,093	16,084
Intercompany loans repaid	(25,000)	(28,000)
Payment of finance lease liability	(3)	(3)
	22,840	88,081

23 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2001 £'000	Cash Flows £'000	Non Cash Changes £'000	At 31 December 2001 £'000
Cash in hand at bank	2,026	(2,026)	—	—
Overdrafts	—	(85)	—	(85)
Net Cash	2,026	(2,111)	—	(85)
Debt due < 1 year	(25,669)	15,925	(17,680)	(27,424)
Debt due > 1 year	(250,003)	25,002	—	(225,001)
Total	(273,646)	38,816	(17,680)	(252,510)

Included within debt due within one year is an amount of £8,246,000 (2000: £9,583,000) which represents interest due on group borrowings.

DOW CORNING LIMITED AND SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2001

24 OPERATING LEASE COMMITMENTS

At 31 December 2001 the group had annual commitments under non- cancellable operating leases as follows:

	Land and Buildings	Other	Total operating lease rentals payable in 2001
	£'000	£'000	£'000
Commitments expiring in 2002	-	73	73
Commitments expiring 2002 - 2006 inclusive	-	628	628
Commitments expiring after 2006	486	281	767
	486	982	1468

25 LONG TERM SUPPLY CONTRACTS

The company has entered into long term contracts with various suppliers for the supply of raw materials, electricity and steam, and other services. The expiry date of the contracts along with the minimum payments due as of 31 December 2001 are shown as follows:

	Raw materials	Electricity, steam and water	Other services
Contract expiry date	2006	2012	2024
Minimum payments due are as follows:	£'000	£'000	£'000
2002	40,574	15,345	4,188
2003	41,941	16,271	4,276
2004	47,030	17,325	4,348
2005	49,574	20,461	4,489
2006	23,011	20,461	4,525
Thereafter	-	118,735	56,061

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
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26 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 a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 December 1998. 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 8% per annum, salary increases would average 6% per annum and that present and future pensions would increase at the rate of 3.25% per annum.

The actuarial valuation at 31 December 1998 showed that the market value of the scheme's assets was £107,132,000 and that the actuarial value of those assets represented 98% and 95% of the benefits accrued to pension scheme members, having taken account of expected future increases in earnings.

The above actuarial valuation indicated a deficit of £3,801,000 in respect of the pension scheme. This amount is being funded over the average expected remaining service life of the employees of the scheme, which has been estimated as 17 years.

Amounts charged to pension expense for the year were as follows:	2001	2000
	£'000	£'000
Dow Corning Limited	4,090	3,834
Dow Corning STI Limited	<u>71</u>	<u>188</u>
	4,161	4,022

DOW CORNING LIMITED AND SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2001

27 FRS17 RETIREMENT BENEFITS

The company has elected to defer implementation of FRS 17 as provided for in the statement.

The additional disclosures required by FRS 17 during the transitional period are as follows based on the most recent actuarial valuation, as disclosed in Note 26, 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 2001. Scheme assets are stated at their market values at 31 December 2001.

<u>Valuation method</u>	<u>Projected unit</u>
Discount rate	6.0%
Inflation rate	2.5%
Increases to deferred benefits during deferment	2.5%
Increases to pensions in payment	2.5%
Salary increases	4.5%

The expected long term rates of return on the main asset classes at 31 December 2001 were:

Equities	7.5%
Bonds	4.8%
Other	2.5%

The weighted average expected long term rates of return at 31 December 2001

7%

The market value of the assets in the scheme at 31 December 2001 was:	£'000
Equities	97,710
Bonds	23,121
Other	894
Total market value of assets	121,725
Present value of liabilities	(137,966)
Deficit	(16,241)
Related deferred tax asset	4,872
Net deficit	(11,369)

Net assets	
Group net assets excluding pension fund liability	29,596
Prepayment in balance sheet written off	(9,461)
Pension fund liability	(16,241)
Group net assets including pension fund liability	3,894

Reserves	
Group profit and loss reserve excluding pension liability	(123,742)
Prepayment in balance sheet written off	(9,461)
Pension fund liability	(16,241)
Group profit and loss reserve including pension fund liability	(149,444)

**DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001**

28 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.