

DOW CORNING LIMITED AND SUBSIDIARIES
(Registered Number 486170)

DIRECTORS' REPORT AND FINANCIAL
STATEMENTS

31 DECEMBER 1997



DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1997

The directors present their report and financial statements for the financial year ended 31 December 1997 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 (1996- £Nil). The directors do not recommend the payment of a final dividend (1996 - £Nil). Transfers to and from reserves are detailed at Note 19.

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 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 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 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 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 1997 (CONTINUED)

DIRECTORS

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

R A Hazleton
R C Pitcher
M F Briggs
J L Bedford
A Royez
M A Worsley
D Golsong
D B Haines

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

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 1997 (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 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 30 days (1996: 39) of purchases outstanding with trade creditors.

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

24 April 1998

Price Waterhouse



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

We have audited the financial statements on pages 5 to 26 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 10 and 11.

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 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 group as at 31 December 1997 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

April 24, 1998

Offices at Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Hull, Leeds, Leicester, London, Manchester, Middlesbrough, Newcastle, Nottingham, St. Albans, Southampton and Windsor.

The partnership's principal place of business is at Southwark Towers, 32 London Bridge Street, London SE1 9SY where a list of the partners' names is available for inspection.

The firm is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>1997</u> £'000	Restated <u>1996</u> £'000
TURNOVER - Continuing operations (Note 3)	194,363	208,903
COST OF SALES	<u>(175,805)</u>	<u>(179,561)</u>
GROSS PROFIT	9.5% 18,558	29,342 14.0
Distribution costs	(7,314)	(7,705)
Administrative expenses	(11,580)	(14,955)
Other operating income	<u>(541)</u>	<u>(383)</u>
OPERATING (LOSS)/PROFIT - Continuing operations (Note 4)	(877)	6,299
Loss on disposal of fixed assets	-	(393)
Interest receivable	235	336
Interest payable and similar charges (Note 7)	<u>(2,363)</u>	<u>(2,264)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(3,005)	3,978
Tax on (loss)/profit on ordinary activities (Note 8)	<u>7</u>	<u>27</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR (Note 20)	(2,998)	4,005
RETAINED PROFIT BROUGHT FORWARD	<u>39,298</u>	<u>35,293</u>
RETAINED PROFIT CARRIED FORWARD (Note 19)	<u>36,300</u>	<u>39,298</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 notes on pages 10 to 26 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 1997

	1997 £'000	Restated 1996 £'000
FIXED ASSETS		
Intangible assets (Note 9)	-	55
Tangible assets (Note 10)	<u>246,007</u>	<u>153,925</u>
	246,007	153,980
CURRENT ASSETS		
Stocks (Note 12)	22,289	20,610
Debtors (Note 13)	50,438	49,695
Cash at bank and in hand	<u>1,330</u>	<u>3,172</u>
	74,057	73,477
CREDITORS - Amounts falling due within one year (Note 14)	<u>(73,298)</u>	<u>(78,519)</u>
NET CURRENT ASSETS (LIABILITIES)	<u>759</u>	<u>(5,042)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	246,766	148,938
CREDITORS - Amounts falling due after more than one year (Note 15)	<u>(201,878)</u>	<u>(101,052)</u>
	<u>44,888</u>	<u>47,886</u>
CAPITAL AND RESERVES		
Called up share capital (Note 18)	5,250	5,250
Reserves: (Note 19)		
Profit and loss account	36,300	39,298
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	39,638	42,636
TOTAL EQUITY SHAREHOLDERS FUNDS	<u>44,888</u>	<u>47,886</u>

APPROVED BY THE BOARD ON 24 APRIL 1998
AND SIGNED ON ITS BEHALF BY



JL BEDFORD
DIRECTOR

The notes on pages 10 to 26 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 1997

	<u>1997</u> £'000	Restated <u>1996</u> £'000
FIXED ASSETS		
Intangible assets (Note 9)	-	-
Tangible assets (Note 10)	244,707	152,911
Investments (Note 11)	<u>4,320</u>	<u>4,320</u>
	249,027	157,231
CURRENT ASSETS		
Stocks (Note 12)	18,836	17,331
Debtors (Note 13)	47,858	48,306
Cash at bank and in hand	<u>-</u>	<u>965</u>
	66,694	66,602
CREDITORS - Amounts falling due within one year (Note 14)	<u>(68,147)</u>	<u>(74,192)</u>
NET CURRENT LIABILITIES	<u>(1,453)</u>	<u>(7,590)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	247,574	149,641
CREDITORS - Amounts falling due after more than one year (Note 15)	<u>(201,817)</u>	<u>(100,983)</u>
	<u>45,757</u>	<u>48,658</u>
CAPITAL AND RESERVES		
Called up share capital (Note 18)	5,250	5,250
Reserves: (Note 19)		
Profit and loss account	37,169	40,070
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	40,507	43,408
TOTAL EQUITY SHAREHOLDERS FUNDS	<u>45,757</u>	<u>48,658</u>

APPROVED BY THE BOARD ON 24 APRIL 1998
AND SIGNED ON ITS BEHALF BY



JL BEDFORD
DIRECTOR

The notes on pages 10 to 26 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £'000	Restated 1996 £'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES (Note 22)	<u>(3,011)</u>	<u>17,950</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	235	336
Interest element of finance lease payments	(18)	(20)
Interest paid	<u>(11,236)</u>	<u>(12,445)</u>
	<u>(11,019)</u>	<u>(12,129)</u>
TAXATION		
Corporation tax paid	<u>(372)</u>	<u>-</u>
CAPITAL EXPENDITURE		
Payments to acquire tangible fixed assets	(91,436)	(60,781)
Receipts from sales of tangible fixed assets	<u>35</u>	<u>-</u>
	<u>(91,401)</u>	<u>(60,781)</u>
NET CASH (OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING	<u>(105,803)</u>	<u>(54,960)</u>
FINANCING		
New intercompany loans (Note 17)	101,700	109,593
Intercompany loan repayment (Note 17)	-	(19,992)
Repayment of external loan (Note 23)	-	(32,165)
New finance lease and hire purchase obligations (Note 23)	-	45
Repayment of finance leases and hire purchase obligations (Note 23)	<u>(126)</u>	<u>(133)</u>
	<u>101,574</u>	<u>57,348</u>
INCREASE/(DECREASE) IN CASH (Note 23)	<u>(4,229)</u>	<u>2,388</u>

The notes on pages 10 to 26 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1997**

	<u>1997</u> £'000	<u>1996</u> £'000
(Loss)/profit for the financial year	(2,998)	4,005
Prior year adjustment (Note 21)	<u>6,937</u>	<u>-</u>
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	<u>3,939</u>	<u>4,005</u>

The notes on pages 10 to 26 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

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) 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 with a construction period which exceeds one year. This represents a change in accounting policy in 1997 the effect of which is set out in note 21.

(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 is included in the value of finished goods and work in progress.

(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.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(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. Effective in 1997, some 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.

(11) 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.

(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

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 FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

2 CHAPTER 11 PROCEEDING

On 15 May 1995, Dow Corning Corporation (the "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 parent company is operating as a debtor-in-possession under the supervision of the Bankruptcy Court. As a debtor-in-possession, the 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 Dow Corning Corporation; however, as a result of the Chapter 11 filing, the creditors of the 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 have net receivables from the parent company in the amount of £20,359,244 and net payables to the parent company in the amount of £53,128,439 which are included in these accounts. There is a risk that the parent company might 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.

Under the provisions of Chapter 11 of the United States Bankruptcy Code, the parent company has the exclusive right to file a plan of reorganisation for a certain period of time (the "Exclusivity Period"). The Exclusivity Period has been extended from time to time and has not expired as of December 31, 1997. After the expiration of the Exclusivity Period, as extended from time to time, any creditor has the right to file a plan of reorganisation with the Bankruptcy Court and solicit acceptances thereof.

In December, 1996, the parent company filed its initial plan of reorganisation (the "Initial Plan") and a related initial disclosure statement with the Bankruptcy Court. In August, 1997, the parent company filed an amended plan of reorganisation (the "First Amended Plan") and a related amended disclosure statement with the Bankruptcy Court; the First Amended Plan superseded the Initial Plan. On February 17, 1998, the parent company filed a second amended plan of reorganisation (the "Second Amended Plan") and a related second amended disclosure statement (the "Second Amended Disclosure Statement") with the Bankruptcy Court; the Second Amended Plan superseded the First Amended Plan.

The Initial Plan would have committed up to US\$3.0 billion to satisfy claims of the parent company's creditors. The First Amended Plan would have committed up to US\$3.7 billion to satisfy claims of the parent company's creditors. The Second Amended Plan would commit up to US\$4.4 billion to satisfy claims of the parent company's creditors.

The Bankruptcy Court intends to conduct hearings commencing in April, 1998, to determine whether the Second Amended Plan and the Second Amended Disclosure Statement should be presented to the parent company's creditors for acceptance. 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 parent company is prohibited from soliciting acceptances of a plan of reorganisation from creditors until after the Bankruptcy Court approves the adequacy of the related disclosure statement. Thereafter the parent company will have a period of time to obtain necessary acceptances from the creditors of its plan of reorganisation. In the interim, the parent company will continue to conduct discussions with the Creditor

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

CHAPTER 11 PROCEEDING (CONTINUED)

Committees regarding its Plan of Reorganisation and Disclosure Statement. Absent the requisite approvals, the Bankruptcy Court may approve the parent company's Plan, or a competing plan of reorganisation, under the "cramdown" provisions of the Bankruptcy Code.

3 TURNOVER

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

	<u>1997</u> £'000	<u>1996</u> £'000
United Kingdom	86,295	82,720
Rest of the World	<u>108,068</u>	<u>126,183</u>
	<u>194,363</u>	<u>208,903</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 OPERATING (LOSS)/PROFIT

The following amounts are charged/(credited) in the Group's results:

	<u>1997</u> £'000	<u>1996</u> £'000
Amortisation of intangible assets	55	130
Depreciation of owned assets	10,978	11,602
Depreciation of assets held under finance leases	243	630
Research and development expenditure - current year	-	3,065
Hire of plant and machinery	1,557	1,472
Other operating lease rentals	723	770
Auditors' remuneration (including expenses)		
- Group	73	65
- Company	42	40
Net exchange loss on foreign currency	666	558
Release of deferred grant income	(824)	(1,102)

Fees payable to auditors in the year for non-audit work for the group amounted to £58,600 (1996 - £63,000)

Beginning in 1997 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 1997 (CONTINUED)

5 STAFF COSTS

	<u>1997</u> £'000	<u>1996</u> £'000
Wages and salaries	23,722	21,066
Social security costs	1,926	1,702
Pension costs	<u>1,985</u>	<u>2,322</u>
	<u>27,633</u>	<u>25,090</u>

The average number of persons employed by the group during the year was 813 (1996 - 737). These persons were all employed in the United Kingdom.

6 DIRECTORS' EMOLUMENTS

	<u>1997</u> £'000	<u>1996</u> £'000
Total directors' emoluments were:		
Emoluments	317	325
Pension contributions	<u>14</u>	<u>27</u>
	<u>331</u>	<u>352</u>
Highest paid director		
Total amount of emoluments	<u>146</u>	<u>144</u>
Accrued pension at end of year	<u>23</u>	<u>19</u>

Retirement benefits are accruing to one director (1996 - 1) under a defined benefit scheme.

7 INTEREST PAYABLE

	<u>1997</u> £'000	Restated <u>1996</u> £'000
Interest on loans (including bank overdrafts) wholly repayable within 5 years	64	600
Interest on other loans	-	48
Interest on loans to group undertakings	<u>2,299</u>	<u>1,616</u>
	<u>2,363</u>	<u>2,264</u>

Results for 1996 have been restated for the effect of capitalised interest of £4.4 million. In 1997 interest in the amount of £11.9 million was capitalised. This interest was incurred on borrowing directly related to the construction of assets.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

8 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	<u>1997</u> £'000	<u>1996</u> £'000
UK corporation tax at 33% (1995 - 33%)	141	358
Prior year under/(over) provision	(148)	(41)
Deferred tax previously written off now regarded as recoverable	-	(344)
	<u>(7)</u>	<u>(27)</u>

9 INTANGIBLE ASSETS

<u>GROUP</u>	<u>Covenants</u> £'000	<u>Goodwill</u> £'000	<u>Total</u> £'000
COST			
At 1 January and 31 December 1997	<u>1,050</u>	<u>1,303</u>	<u>2,353</u>
ACCUMULATED AMORTISATION			
At 1 January 1997	1,050	1,248	2,298
Charge for the year	-	55	55
At 31 December 1997	<u>1,050</u>	<u>1,303</u>	<u>2,353</u>
NET BOOK AMOUNT			
At 31 December 1997	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
At 31 December 1996	<u>Nil</u>	<u>55</u>	<u>55</u>
 <u>COMPANY</u>			
	<u>Covenants</u> £'000		<u>Total</u> £'000
COST			
At 1 January and 31 December 1997	<u>1,050</u>		<u>1,050</u>
ACCUMULATED AMORTISATION			
At 1 January 1997	1,050		1,050
Charge for the year	-		-
At 31 December 1997	<u>1,050</u>		<u>1,050</u>
NET BOOK AMOUNT			
At 31 December 1997 and 1996	<u>Nil</u>		<u>Nil</u>

DOW CORNING LIMITED AND SUBSIDIARIES

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)**

10 TANGIBLE ASSETS - GROUP

	Assets under short term lease		Owned assets			Total £'000
	Land and buildings £'000	Plant and equipment £'000	Land and building £'000	Plant and equipment £'000	Assets under construction £'000	
COST OR VALUATION						
At 1 January 1997	3,384	36,315	18,867	129,841	104,466	292,873
Additions	43	-	-	372	102,923	103,338
Transfers	-	-	273	18,141	(18,414)	-
Disposals	-	(37)	-	(35)	-	(72)
At 31 December 1997	<u>3,427</u>	<u>36,278</u>	<u>19,140</u>	<u>148,319</u>	<u>188,975</u>	<u>396,139</u>
ACCUMULATED DEPRECIATION						
At 1 January 1997	1,592	36,101	5,742	95,513	-	138,948
Charge for the year	122	121	678	10,300	-	11,221
Disposals	-	(37)	-	-	-	(37)
At 31 December 1997	<u>1,714</u>	<u>36,185</u>	<u>6,420</u>	<u>105,813</u>	<u>-</u>	<u>150,132</u>
NET BOOK AMOUNT						
At 31 December 1997	<u>1,713</u>	<u>93</u>	<u>12,720</u>	<u>42,506</u>	<u>188,975</u>	<u>246,007</u>
At 31 December 1996	<u>1,506</u>	<u>214</u>	<u>13,411</u>	<u>34,328</u>	<u>104,466</u>	<u>153,925</u>

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

10 TANGIBLE ASSETS (CONTINUED) - COMPANY

	Assets under short term lease		Owned assets			Total £'000
	Land and buildings	Plant and equipment	Land and building	Plant and equipment	Assets under construction	
	£'000	£'000	£'000	£'000	£'000	
COST OR VALUATION						
At 1 January 1997	2,894	36,315	18,312	128,029	104,466	290,016
Additions	-	-	-	-	102,923	102,923
Transfers	-	-	273	18,141	(18,414)	-
Disposals	-	(37)	-	(35)	-	(72)
At 31 December 1997	<u>2,894</u>	<u>36,278</u>	<u>18,585</u>	<u>146,135</u>	<u>188,975</u>	<u>392,867</u>
ACCUMULATED DEPRECIATION						
At 1 January 1997	1,385	36,101	5,704	93,915	-	137,105
Charge for the year	79	121	670	10,222	-	11,092
Disposals	-	(37)	-	-	-	(37)
At 31 December 1997	<u>1,464</u>	<u>36,185</u>	<u>6,374</u>	<u>104,137</u>	<u>-</u>	<u>148,160</u>
NET BOOK AMOUNT						
At 31 December 1997	<u>1,430</u>	<u>93</u>	<u>12,211</u>	<u>41,998</u>	<u>188,975</u>	<u>244,707</u>
At 31 December 1996	<u>1,507</u>	<u>214</u>	<u>12,608</u>	<u>34,114</u>	<u>104,466</u>	<u>152,911</u>

As set out in notes 19 and 21, for both the company and the group, the January 1, 1996 balance of Assets Under Construction has been restated to include capitalised interest of £2,500,000 for 1995; similarly, the January 1, 1997 balance has been restated to include capitalised interest of £4,437,000 for 1996. Additions to Assets Under Construction for 1997 include capitalised interest of £11,902,000.

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 (1996: £553,000). The amounts of the valuations are as follows:

	<u>1997</u> £'000	<u>1996</u> £'000
Freehold land	<u>828</u>	<u>828</u>

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

10 TANGIBLE ASSETS (CONTINUED)

Future capital expenditure not provided for in these accounts:

	<u>Group</u>	
	<u>1997</u>	<u>1996</u>
	<u>£'000</u>	<u>£'000</u>
Contracts placed	40,272	37,563
Authorised by the directors but contracts not yet placed	<u>51,772</u>	<u>67,302</u>
	<u>92,044</u>	<u>104,865</u>

11 INVESTMENTS

As at 31 December 1997 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.

12 STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Raw materials and consumables	6,929	6,249	5,877	4,885
Finished goods and goods for resale	<u>15,360</u>	<u>14,361</u>	<u>12,959</u>	<u>12,446</u>
	<u>22,289</u>	<u>20,610</u>	<u>18,836</u>	<u>17,331</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 1997 (CONTINUED)

13 DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	£'000	£'000	£'000	£'000
Trade debtors	15,161	15,519	7,918	8,622
Amounts owed by group undertakings	26,715	28,165	31,767	33,846
Other debtors and prepayments	<u>8,562</u>	<u>6,011</u>	<u>8,173</u>	<u>5,838</u>
	<u>50,438</u>	<u>49,695</u>	<u>47,858</u>	<u>48,306</u>

14 CREDITORS - Amounts falling due within one year

	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	£'000	£'000	£'000	£'000
Bank overdraft	2,483	96	2,219	96
Obligations under finance leases and hire purchase contracts (Note 16)	66	121	66	121
Trade creditors	5,003	12,907	4,728	12,230
Amounts owed to group undertakings	59,168	58,916	56,284	56,922
Loans from group undertakings (Note 17)	-	-	-	500
Employee taxation and social security	1,073	1,175	612	519
Accruals	4,536	3,939	3,443	2,980
Deferred grant income	795	824	795	824
Taxation	<u>174</u>	<u>541</u>	<u>-</u>	<u>-</u>
	<u>73,298</u>	<u>78,519</u>	<u>68,147</u>	<u>74,192</u>

The bank overdraft is repayable on demand.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

15 CREDITORS - Amounts falling due after more than one year

	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	£'000	£'000	£'000	£'000
Loans from group undertakings (Note 17)	200,700	99,000	200,700	99,000
Obligations under finance leases and hire purchase contracts (Note 16)	25	96	25	96
Deferred grant income	1,092	1,887	1,092	1,887
Accruals	<u>61</u>	<u>69</u>	<u>-</u>	<u>-</u>
	<u>201,878</u>	<u>101,052</u>	<u>201,817</u>	<u>100,983</u>

16 FINANCE LEASE AND HIRE PURCHASE OBLIGATIONS - GROUP AND COMPANY

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Falling due:		
Within one year	73	144
Between one and five years	<u>34</u>	<u>107</u>
Finance charges	107	251
	<u>(16)</u>	<u>(34)</u>
	<u>91</u>	<u>217</u>
Falling due within one year (Note 14)	66	121
Falling due after more than one year (Note 15)	<u>25</u>	<u>96</u>
	<u>91</u>	<u>217</u>

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

17 LOANS FROM GROUP UNDERTAKINGS

	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
(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 1 month LIBOR plus 1% fixed monthly.	200,700	99,000	200,700	99,000
(b) Unsecured Sterling loan from Dow Corning STI Limited to Dow Corning Limited bearing interest 6 month LIBOR	-	-	-	500
	<u>200,700</u>	<u>99,000</u>	<u>200,700</u>	<u>99,500</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.

These borrowings have no repayment schedule.

18 CALLED UP SHARE CAPITAL

	<u>1997</u>	<u>1996</u>	<u>Company</u>	
	<u>Number</u>	<u>Number</u>	<u>1997</u>	<u>1996</u>
	<u>(thousand)</u>	<u>(thousand)</u>	<u>£'000</u>	<u>£'000</u>
Authorised, 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>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

19 RESERVES

	<u>Group</u> £'000	<u>Company</u> £'000
PROFIT AND LOSS		
At 1 January 1996 as previously stated	32,361	33,133
Prior year adjustment (Note 21)		
Impact on year ended 31 December 1996	4,437	4,437
Impact on earlier periods	<u>2,500</u>	<u>2,500</u>
At 1 January 1996 as restated	39,298	40,070
(Loss) for the year	<u>(2,998)</u>	<u>(2,901)</u>
At 31 December 1997	36,300	37,169
SHARE PREMIUM		
At 31 December 1997 and 1996	3,063	3,063
REVALUATION RESERVE		
At 31 December 1997 and 1996	<u>275</u>	<u>275</u>
TOTAL RESERVES AT 31 DECEMBER 1997	<u>39,638</u>	<u>40,507</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.

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>Group</u>		<u>Company</u>	
	1997	Restated 1996	1997	Restated 1996
	£'000	£'000	£'000	£'000
(Loss) for the financial year	(2,998)	(432)	(2,901)	(59)
Prior year adjustment	<u>-</u>	<u>4,437</u>	<u>-</u>	<u>4,437</u>
	(2,998)	4,005	(2,901)	4,378
Opening shareholders' funds (As previously stated)	47,886	41,381	48,658	41,780
Prior year adjustment	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Closing shareholders' funds	<u>44,888</u>	<u>47,886</u>	<u>45,757</u>	<u>48,658</u>

Shareholders' funds are entirely attributable to equity shareholders.

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

21 PRIOR YEAR ADJUSTMENT

During the year the directors decided to change the company's accounting policy with regard to the treatment of interest payable. Due to the construction of new production facilities it was felt by the directors that a fairer presentation of the results of the company would be achieved if interest payable on borrowings used to finance the construction of the new facilities were capitalised as part of the cost of the facilities and amortised over their useful lives. The result of this change in policy has been a prior year adjustment restating 1996 results and the brought forward profit and loss reserve as at 1 January 1996. For years prior to 1996, the new policy has resulted in an increase in the profit and loss reserve of £2,500,000. For the year ended 31 December 1996 the prior year adjustment has caused the previously reported loss of £432,000 to be restated to a profit of £4,005,000, an increase in profits of £4,437,000. The effect of the new policy on the result for the year ended 31 December 1997 has been to decrease the loss for the year by £11,902,000

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

	<u>1997</u> £'000	<u>Group</u> <u>1996</u> £'000
Operating (loss)/profit	(877)	6,299
Depreciation charges	11,221	12,232
Amortisation of intangible assets	55	130
Amortisation of grant income	(824)	(1,102)
Loss on translation	200	113
Decrease/(increase) in stocks	(1,679)	1,713
Decrease/(increase) in debtors	(743)	17,361
(Decrease)/increase in creditors	<u>(10,364)</u>	<u>(18,796)</u>
Net cash (outflow)/inflow from operating activities	<u>(3,011)</u>	<u>17,950</u>

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

23 ANALYSIS OF NET DEBT

	Cash at Bank £'000	Overdrafts £'000	Net Cash £'000	Borrowings and finance leases		Net (Debt) Cash £'000
				Falling Due Within 1 year £'000	Falling Due After 1 year £'000	
Balance at 1 January 1996	1,972	(1,284)	688	(125)	(41,857)	(41,294)
Cash Flows	1,200	1,188	2,388	4	(57,352)	(54,960)
Translation	-	-	-	-	113	113
Balance at 1 January 1997	3,172	(96)	3,076	(121)	(99,096)	(96,141)
Cash Flows	(1,842)	(2,387)	(4,229)	55	(101,629)	(105,803)
Balance at 31 December 97	<u>1,330</u>	<u>(2,483)</u>	<u>(1,153)</u>	<u>(66)</u>	<u>(200,725)</u>	<u>(201,944)</u>

24 OPERATING LEASE COMMITMENTS

The amount of rentals payable by the group in the year ended 31 December 1997 in respect of rentals under operating leases is as follows:

	Land and buildings £'000	Other £'000	Total operating lease rentals payable in 1997 £'000
Commitment expiring in 1998	24	348	372
Commitment expiring 1998 - 2002 inclusive	-	808	808
Commitment expiring after 2002	<u>210</u>	-	<u>210</u>
	<u>234</u>	<u>1,156</u>	<u>1,390</u>

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

DOW CORNING LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

25 LONG TERM SUPPLY CONTRACTS

In 1997 the company has entered into long term contracts with various suppliers for the supply of raw materials, electricity, steam and water treatment services. The expiry date of the contracts along with the minimum payments due as of 31 December 1997 (1996 - £nil) are shown as follows:

	<u>Raw materials</u>	<u>Electricity and steam</u>	<u>Water treatment</u>
Contract expiry date	2003	2012	2007
Minimum payments due are as follows:	£'000	£'000	£'000
1998	20,635	7,068	653
1999	26,511	8,534	653
2000	37,945	9,780	653
2001	41,316	9,813	653
2002	42,273	10,262	653
thereafter	25,054	112,067	2,882

26 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 79% and 81% of the benefits accrued to members of the industrial staff and 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 FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

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

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Dow Corning Limited	1,717	2,066
Dow Corning STI Limited	124	139
Dow Corning Hansil Limited	<u>144</u>	<u>117</u>
	<u>1,985</u>	<u>2,322</u>

The company has made additional contributions of £250,000 into both the industrial scheme and staff scheme in 1997. These amounts are included in the above expense for the year.

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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

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.