

Dow Corning Limited and subsidiaries

(Registered Number 486170)

Directors' report and financial statements

31 December 1999

RE-SCAN

DOW CORNING



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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 1999

The directors present their report and financial statements for the financial year ended 31 December 1999 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.

FUTURE DEVELOPMENTS

Dow Corning Limited is in the midst of a major expansion of its manufacturing capabilities. Significant capital spending on this project, called "Genesis", began in 1995, and continued throughout 1999. The construction, start-up, and production trials were completed during 1999, with reliable on line production planned for early 2000.

EVENTS SINCE THE BALANCE SHEET DATE

On 5 July 2000, the company's authorised share capital was increased by £165,000,000 by the creation of 165,000,000 ordinary shares of £1 each. At that date 100,000,000 ordinary shares were allotted, fully paid and issued to the company's holding company Dow Corning Corporation (see note 22 to the accounts).

This share issue has been made to reflect the shortage of equity funding which has arisen through the company's recent major expansion of its manufacturing capabilities which was completed at the end of 1999.

TRADING RESULTS AND DIVIDEND

The results for the year are set out in the accompanying profit and loss account. The company has experienced a significant increase in operating costs due to the addition of both employees and infrastructure, such as utilities and environmental control facilities, to support the Genesis expansion. These additional costs total over £27 million in 1999 (1998 - £18 million), whereas increases in revenue from the Genesis plant are not yet being realised.

No interim dividend was proposed (1998- £Nil). The directors do not recommend the payment of a final dividend (1998 - £Nil). Transfers to and from reserves are detailed at Note 20.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

CHAPTER 11 PROCEEDING

On 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 the ultimate parent company. In the view of the management of the 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 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 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 1999 (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	
J L Bedford	(resigned 22 April 1999)
A Royez	(resigned 22 April 1999)
M A Worsley	(resigned 22 April 1999)
D Golsong	
D B Haines	
D R Pratt	
J Marciniak	(resigned 22 April 1999)
N. Whitfield	(appointed 22 April 1999)
R. Krasa	(appointed 22 April 1999)

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 £50,000 donations for charitable purposes and no contributions to political parties.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999 (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 42 days (1998: 55) of purchases outstanding with trade creditors.

DOW CORNING LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

YEAR 2000

Dow Corning Corporation has implemented a worldwide plan to evaluate and manage the impact of the Year 2000 on the corporation as a whole. A project team has been formed and an action plan and timetable have been developed. The plan includes a review of all systems to identify those which could be affected by the Year 2000, an assessment of the associated risks, and a prioritisation of the changes to be made. A timetable has been established which will allow the upgrades needed to make the hardware and software Year 2000 compliant to be completed before the end of 1999. Dow Corning Limited is participating in this overall plan.

As at 31 December 1999, the company has spent £301,000 in external costs on the Year 2000 effort. In addition, key customers and suppliers are being contacted to confirm their readiness for the Year 2000.

However, given the nature of the Year 2000 issue, there can be no certainty that the company, its customers, its suppliers or other third parties will be completely Year 2000 compliant and consequently that the company will not be materially affected. During the period 1 January to 20 July 2000, no year 2000 problems have been encountered.

EURO

The company has the up to date systems and business processes to handle transactions in Euros as and when required.

AUDITORS

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

By Order of the Board



EA ROCHFORD

Secretary dated 20 July 2000

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

We have audited the financial statements on pages 8 to 32 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 13 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described in the Directors' Report, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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.

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 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.

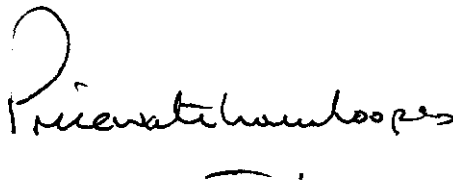
AUDITORS' REPORT TO THE SHAREHOLDERS OF DOW CORNING LIMITED AND SUBSIDIARIES (CONTINUED)

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 group as at 31 December 1999 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
Churchill House,
Churchill Way,
Cardiff
CF10 2XQ

20 July 2000

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	<u>1999</u> £'000	<u>1998</u> £'000
TURNOVER - Continuing operations (Note 3)	206,643	195,773
COST OF SALES	<u>(214,660)</u>	<u>(191,179)</u>
GROSS PROFIT	(8,017)	4,594
Distribution costs	(10,989)	(10,718)
Administrative expenses	<u>(9,390)</u>	<u>(12,137)</u>
OPERATING (LOSS) - Continuing operations (Note 4)	(28,396)	(18,261)
Profit on disposal of fixed assets	666	-
Interest receivable	139	333
Interest payable and similar charges (Note 7)	<u>(3,113)</u>	<u>(3,024)</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	(30,704)	(20,952)
Tax on (loss) on ordinary activities (Note 8)	<u>(1,388)</u>	<u>(56)</u>
(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED FROM RESERVES (Note 20)	(32,092)	(21,008)
RETAINED PROFIT BROUGHT FORWARD	<u>15,292</u>	<u>36,300</u>
RETAINED PROFIT CARRIED FORWARD (Note 20)	<u>(16,800)</u>	<u>15,292</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.

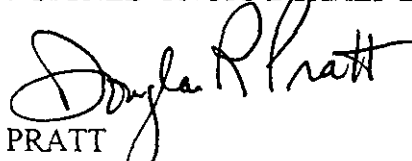
The notes on pages 13 to 32 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET - 31 DECEMBER 1999

	<u>1999</u> £'000	<u>1998</u> £'000
FIXED ASSETS		
Intangible assets (Note 9)	-	-
Tangible assets (Note 10)	<u>373,591</u>	<u>332,234</u>
	373,591	332,234
CURRENT ASSETS		
Stocks (Note 12)	28,852	25,606
Debtors (Note 13)	64,178	61,019
Cash at bank and in hand	<u>500</u>	<u>280</u>
	93,530	86,905
CREDITORS - Amounts falling due within one year (Note 14)	<u>(224,595)</u>	<u>(144,102)</u>
NET CURRENT (LIABILITIES) ASSETS	<u>(131,065)</u>	<u>(57,197)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	242,526	275,037
CREDITORS - Amounts falling due after more than one year (Note 15)	<u>(250,738)</u>	<u>(251,157)</u>
	<u>(8,212)</u>	<u>23,880</u>
CAPITAL AND RESERVES		
Called up share capital (Note 19)	5,250	5,250
Reserves: (Note 20)		
Profit and loss account	(16,800)	15,292
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(13,462)	18,630
TOTAL EQUITY SHAREHOLDERS' FUNDS	<u>(8,212)</u>	<u>23,880</u>

APPROVED BY THE BOARD ON 20th JULY 2000
AND SIGNED ON ITS BEHALF BY


DR PRATT
DIRECTOR

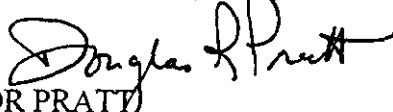
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DOW CORNING LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET - 31 DECEMBER 1999

	<u>1999</u> £'000	<u>1998</u> £'000
FIXED ASSETS		
Intangible assets (Note 9)	-	-
Tangible assets (Note 10)	372,714	331,050
Investments (Note 11)	<u>4,320</u>	<u>4,320</u>
	377,034	335,370
CURRENT ASSETS		
Stocks (Note 12)	27,878	22,552
Debtors (Note 13)	66,136	54,035
Cash at bank and in hand	-	-
	<u>94,014</u>	<u>76,587</u>
CREDITORS - Amounts falling due within one year (Note 14)	<u>(226,642)</u>	<u>(136,830)</u>
NET CURRENT LIABILITIES	<u>(132,628)</u>	<u>(60,243)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	244,406	275,127
CREDITORS - Amounts falling due after more than one year (Note 15)	<u>(250,738)</u>	<u>(250,853)</u>
	<u>(6,332)</u>	<u>24,274</u>
CAPITAL AND RESERVES		
Called up share capital (Note 19)	5,250	5,250
Reserves: (Note 20)		
Profit and loss account	(14,920)	15,686
Share premium	3,063	3,063
Revaluation reserve	<u>275</u>	<u>275</u>
	(11,582)	19,024
TOTAL EQUITY SHAREHOLDERS' FUNDS	<u>(6,332)</u>	<u>24,274</u>

APPROVED BY THE BOARD ON 20th JULY 2000
AND SIGNED ON ITS BEHALF BY


DR PRATT
DIRECTOR

The notes on pages 13 to 32 form part of these financial statements.

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

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

	1999 £'000	1998 £'000
Operating (loss)	(28,396)	(18,261)
Depreciation charges	14,684	13,335
Profit on sale of fixed assets	666	-
Amortisation of grant income	(395)	(646)
Loss on translation	-	-
(Increase) in stocks	(3,246)	(3,316)
(Increase) in debtors	(3,160)	(10,581)
Increase / (decrease) in creditors	75,711	57,964
Net Cash inflow (outflow) from operating activities	<u>55,864</u>	<u>38,495</u>

CASH FLOW STATEMENT (Note 23)

Net cash inflow/ (outflow) from operating activities	55,864	38,495
Returns on investments and servicing of finance	(10,851)	(10,687)
Taxation	(127)	-
Capital expenditure	<u>(37,769)</u>	<u>(79,239)</u>
	7,117	(51,431)
Management of liquid resources	-	-
Financing	<u>(3,991)</u>	<u>49,248</u>
Decrease in cash	<u>3,126</u>	<u>(2,183)</u>

Reconciliation of net cash flow to movement in net debt (Note 24)

Increase/ (Decrease) in cash in period	3,126	(2,183)
Cash used to increase liquid resources	<u>(16,780)</u>	<u>(93,466)</u>
Change in net debt resulting from cash flows	(13,654)	(95,649)
Non-cash movement in net debt	10,378	12,276
Net debt at 1 January 1999	<u>(285,317)</u>	<u>(201,944)</u>
Net debt at 31 December 1999	<u>(288,593)</u>	<u>(285,317)</u>

The notes on pages 13 to 32 form part of these financial statements

DOW CORNING LIMITED AND SUBSIDIARIES

GROUP STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES FOR THE YEAR ENDED 31 DECEMBER 1999

	<u>1999</u> £'000	<u>1998</u> £'000
(Loss) for the financial year	(32,092)	(21,008)
Prior year adjustment	-	-
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	<u>(32,092)</u>	<u>(21,008)</u>

The notes on pages 13 to 32 form part of these financial statements

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1999

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. Plant and machinery capitalised in 1999 and thereafter are depreciated using 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.

(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.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1999

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. Effective in 1997, 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 1999

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

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 1999

2 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; 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 £4,909,000 and net payables to the ultimate parent company in the amount of £390,519,000 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 December 1996, the parent company filed its initial plan of re-organisation (the "Initial Plan") and a related initial disclosure statement with the Bankruptcy Court. Under the Initial Plan, the parent company would have committed up to US\$ 3.0 billion to satisfy claims of the parent company's creditors. The Initial Plan was superceded by the parent company's first amended plan of re-organisation (the "First Amended Plan") and a related amended disclosure statement, which was filed with the Bankruptcy Court in August 1997. The First Amended Plan would have provided up to US\$ 3.7 billion to satisfy claims of the parent company's creditors. On 17 February 1998, the Debtor Company filed its second amended plan of reorganisation (the "Second Amended Plan") and related second amended disclosure statement. Under the Second Amended Plan, the Debtor Company would have committed up to US\$ 4.4 billion to satisfy the claims of its creditors. On November 9, 1998, the Second Amended Plan was superceded by the parent company's filing, jointly with the creditor committee representing products liability claimants, of a third amended plan of re-organisation (the "Joint Plan of Re-organisation") and related disclosure statement (the "Joint Disclosure Statement"). The Joint Plan of Re-organisation would provide up to US\$ 4.5 billion to satisfy claims of the Debtor Company's creditors. On November 30, 1999, the Bankruptcy Court issued an order confirming the Joint Plan of Re-organisation, (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. The Company anticipates that the U.S. District Court in Michigan will begin consideration of these appeals in April 2000. 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.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1999

3 TURNOVER

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

	<u>1999</u> £'000	<u>1998</u> £'000
United Kingdom	77,909	64,054
Rest of the World	<u>128,734</u>	<u>131,719</u>
	<u>206,643</u>	<u>195,773</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) ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	<u>1999</u> £'000	<u>1998</u> £'000
Amortisation of intangible assets	-	-
Depreciation of owned assets	14,684	13,335
Depreciation of assets held under finance leases	127	177
Hire of plant and machinery	989	1,725
Other operating lease rentals	587	902
Auditors' remuneration (including expenses)		
– Group	66	79
– Company	41	49
Net exchange loss on foreign currency	367	1,135
Release of deferred grant income	(395)	(646)
Reorganisation costs	115	1,191
	<u> </u>	<u> </u>

Fees payable to auditors in the year for non-audit work for the group amounted to £11,000 (1998 - £169,000)

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 1999

5 STAFF COSTS

	<u>1999</u> £'000	<u>1998</u> £'000
Wages and salaries (including redundancy)	32,292	28,850
Social security costs	2,862	2,924
Pension costs	<u>3,017</u>	<u>2,731</u>
	<u>38,171</u>	<u>34,505</u>

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

	<u>1999</u> Number	<u>1998</u> Number
Management and administration	42	51
Production and research	832	767
Sales	<u>88</u>	<u>88</u>
	<u>962</u>	<u>906</u>

These persons were all employed in the United Kingdom.

6 DIRECTORS' EMOLUMENTS

	<u>1999</u> £'000	<u>1998</u> £'000
Total directors' emoluments were:		
Emoluments	326	343
Pension contributions	<u>21</u>	<u>15</u>
	<u>347</u>	<u>358</u>
Highest paid director:		
Total amount of emoluments	<u>183</u>	<u>101</u>
Accrued pension at end of year	<u>-</u>	<u>43</u>

Retirement benefits are accruing to one director (1998 - one) under a defined benefit scheme.

DOW CORNING LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1999

7 INTEREST PAYABLE

	<u>1999</u> £'000	<u>1998</u> £'000
Interest on loans (including bank overdrafts) wholly repayable within 5 years	39	66
Interest on other loans	-	3
Interest on loans to group undertakings	<u>21,330</u>	<u>23,227</u>
	21,369	23,296
Less: amounts capitalised (Note 10)	<u>(18,256)</u>	<u>(20,272)</u>
	<u>3,113</u>	<u>3,024</u>

Capitalised interest was incurred on borrowing directly related to the construction of assets.

8 TAX ON (LOSS) ON ORDINARY ACTIVITIES

	<u>1999</u> £'000	<u>1998</u> £'000
UK corporation tax at 30% (1998 - 31%)	1,164	41
Advanced corporation tax written off	259	-
Deferred tax	-	10
Prior year under/(over) provision	<u>(35)</u>	<u>5</u>
	<u>1,388</u>	<u>56</u>

DOW CORNING LIMITED AND SUBSIDIARIES
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9 INTANGIBLE ASSETS

<u>GROUP</u>	<u>Goodwill</u> £'000	<u>Covenants</u> £'000	<u>Total</u> £'000
Cost			
At 1 January and 31 December 1999	<u>1,303</u>	<u>1,050</u>	<u>2,353</u>
Accumulated Depreciation			
At 1 January and 31 December 1999	<u>1,303</u>	<u>1,050</u>	<u>2,353</u>
Net Book Amount			
At 31 December 1999 and 1998	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
<u>COMPANY</u>			
		<u>Covenants</u> £'000	<u>Total</u> £'000
Cost			
At 1 January and 31 December 1999		<u>1,050</u>	<u>1,050</u>
Accumulated Depreciation			
At 1 January 1999 and 31 December 1999		<u>1,050</u>	<u>1,050</u>
Net Book Amount			
At 31 December 1999 and 1998		<u>Nil</u>	<u>Nil</u>

DOW CORNING LIMITED AND SUBSIDIARIES
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10 TANGIBLE ASSETS - GROUP

	<u>Assets under short term lease</u>		<u>Owned assets</u>			
	Land and <u>buildings</u> £'000	Plant and <u>equipment</u> £'000	Land and <u>buildings</u> £'000	Plant and <u>equipment</u> £'000	Assets under <u>construction</u> £'000	<u>Total</u> £'000
Cost or Valuation						
At 1 January 1999	3,427	35,250	19,274	166,924	254,963	479,838
Additions	14	-	16	1,290	55,467	56,787
Transfers	94	-	76	15,544	(15,714)	-
Disposals	<u>(182)</u>	<u>(70)</u>	<u>(555)</u>	<u>(262)</u>	<u>(46)</u>	<u>(1,115)</u>
At 31 December 1999	<u>3,353</u>	<u>35,180</u>	<u>18,811</u>	<u>183,496</u>	<u>294,670</u>	<u>535,510</u>
Accumulated Depreciation						
At 1 January 1999	1,838	35,201	6,410	104,155	-	147,604
Charge for the year	110	17	571	14,113	-	14,811
Disposals	<u>(142)</u>	<u>(70)</u>	<u>(53)</u>	<u>(231)</u>	<u>-</u>	<u>(496)</u>
At 31 December 1999	<u>1,806</u>	<u>35,148</u>	<u>6,928</u>	<u>118,037</u>	<u>-</u>	<u>161,919</u>
Net Book Amount						
At 31 December 1999	<u>1,547</u>	<u>32</u>	<u>11,883</u>	<u>65,459</u>	<u>294,670</u>	<u>373,591</u>
At 31 December 1998	<u>1,589</u>	<u>49</u>	<u>12,864</u>	<u>62,769</u>	<u>254,963</u>	<u>332,234</u>

DOW CORNING LIMITED AND SUBSIDIARIES
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10 TANGIBLE ASSETS (CONTINUED) - COMPANY

	<u>Assets under short term lease</u>		<u>Owned assets</u>			<u>Total</u> £'000
	<u>Land and buildings</u> £'000	<u>Plant and equipment</u> £'000	<u>Land and buildings</u> £'000	<u>Plant and equipment</u> £'000	<u>Assets under construction</u> £'000	
Cost or Valuation						
At 1 January 1999	2,894	35,250	18,719	164,901	254,963	476,727
Additions	-	-	16	1,065	55,333	56,414
Transfers	-	-	76	15,543	(15,619)	-
Disposals	-	(70)	-	-	(46)	(116)
At 31 December 1999	<u>2,894</u>	<u>35,180</u>	<u>18,811</u>	<u>181,509</u>	<u>294,631</u>	<u>533,025</u>
Accumulated Depreciation						
At 1 January 1999	1,544	35,201	6,356	102,576	-	145,677
Charge for the year	80	17	571	14,036	-	14,704
Disposals	-	(70)	-	-	-	(70)
At 31 December 1999	<u>1,624</u>	<u>35,148</u>	<u>6,927</u>	<u>116,612</u>	<u>-</u>	<u>160,311</u>
Net Book Amount						
At 31 December 1999	<u>1,270</u>	<u>32</u>	<u>11,884</u>	<u>64,897</u>	<u>294,631</u>	<u>372,714</u>
At 31 December 1998	<u>1,350</u>	<u>49</u>	<u>12,363</u>	<u>62,325</u>	<u>254,963</u>	<u>331,050</u>

Included within Assets under construction above is capitalised interest of £57,367,000 (1998: £39,111,000) and commissioning costs of £4,000,000 (1998: £Nil).

DOW CORNING LIMITED AND SUBSIDIARIES
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10 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 (1998: £553,000). The amounts of the valuations are as follows:

	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
Freehold land	<u>828</u>	<u>828</u>

Future capital expenditure not provided for in these accounts:

	<u>1999</u>	<u>Group</u> <u>1998</u>
	<u>£'000</u>	<u>£'000</u>
Contracts placed	13,010	18,556
Authorised by the directors but contracts not yet placed	<u>16,984</u>	<u>6,100</u>
	<u>29,994</u>	<u>24,656</u>

11 INVESTMENTS

As at 31 December 1999 the company owned 100% of the issued ordinary share capital of its subsidiaries. Their names and countries of registration are:

Dow Corning Hansil Limited	- England
Dow Corning STI Limited	- England

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. At 31 December 1999 the business, assets and liabilities of Dow Corning Hansil Limited were acquired by the company at net book value.

12 STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Raw materials and consumables	16,044	7,638	15,670	7,042
Finished goods and goods for resale	<u>12,808</u>	<u>17,968</u>	<u>12,208</u>	<u>15,510</u>
	<u>28,852</u>	<u>25,606</u>	<u>27,878</u>	<u>22,552</u>

The replacement cost of stock is not materially different from that stated above.

DOW CORNING LIMITED AND SUBSIDIARIES
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13 DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	£'000	£'000	£'000	£'000
Trade debtors	16,506	16,033	13,243	9,347
Amounts owed by group undertakings	35,429	31,776	40,727	31,939
Pension fund prepayment	8,807	7,305	8,807	7,305
Other debtors and prepayments	3,436	5,905	3,359	5,444
	<u>64,178</u>	<u>61,019</u>	<u>66,136</u>	<u>54,035</u>

14 CREDITORS - Amounts falling due within one year

	<u>Group</u>		<u>Company</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	£'000	£'000	£'000	£'000
Bank overdraft	710	3,616	710	3,616
Obligations under finance leases and hire purchase contracts (Note 16)	2	11	2	11
Trade creditors	6,162	6,096	6,005	5,806
Amounts owed to group undertakings	178,021	90,435	180,705	85,063
Loans from group undertakings (Note 17)	28,000	31,975	28,000	31,975
Employee taxation and social security	821	1,259	780	752
Accruals	10,478	10,076	10,328	9,213
Deferred grant income	112	394	112	394
Taxation	289	240	-	-
	<u>224,595</u>	<u>144,102</u>	<u>226,642</u>	<u>136,830</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

The bank overdraft is repayable on demand.

DOW CORNING LIMITED AND SUBSIDIARIES
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15 CREDITORS - Amounts falling due after more than one year

	<u>Group</u>		<u>Company</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Loans from group undertakings (Note 17)	250,000	250,000	250,000	250,000
Obligations under finance leases and hire purchase contracts (Note 16)	5	6	5	6
Deferred grant income	733	847	733	847
Accruals	<u>-</u>	<u>304</u>	<u>-</u>	<u>-</u>
	<u>250,738</u>	<u>251,157</u>	<u>250,738</u>	<u>250,853</u>

16 FINANCE LEASE AND HIRE PURCHASE OBLIGATIONS

	<u>Group and Company</u>	
	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
Falling due:		
Within one year	2	24
Between one and five years	<u>9</u>	<u>-</u>
	11	24
Finance charges	<u>(4)</u>	<u>(7)</u>
	<u>7</u>	<u>17</u>
Falling due within one year (Note 14)	2	11
Falling due after more than one year (Note 15)	<u>5</u>	<u>6</u>
	<u>7</u>	<u>17</u>

DOW CORNING LIMITED AND SUBSIDIARIES
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17 LOANS FROM GROUP UNDERTAKINGS

	<u>Group</u>		<u>Company</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</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 6 month LIBOR plus 1%.	250,000	250,000	250,000	250,000
(b) Unsecured (BEF) loan from Dow Corning Coordination Centre SA to Dow Corning Limited dated 20 November 1998 expiring 31 March 1999; the interest rate is 1 month BIBO plus 1% .	-	31,975	-	31,975
(c) Unsecured (£) loan from Dow Corning STI Inc. to Dow Corning Limited dated 1 October 1999 expiring 1 October 2000; the interest rate is LIBP plus 1%	<u>28,000</u>	<u>-</u>	<u>28,000</u>	<u>-</u>

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

These borrowings have no repayment schedule.

DOW CORNING LIMITED AND SUBSIDIARIES
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18 DEFERRED TAXATION

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

	<u>Group</u>			
	<u>Provided</u>		<u>Not Provided</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Accelerated Capital Allowances	58,795	43,478	-	-
Short term timing differences	(17,822)	(14,995)	-	-
Losses	<u>(40,973)</u>	<u>(28,483)</u>	<u>(29,823)</u>	<u>(19,170)</u>
	<u>-</u>	<u>-</u>	<u>(29,823)</u>	<u>(19,170)</u>

	<u>Company</u>			
	<u>Provided</u>		<u>Not provided</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Accelerated Capital Allowances	58,805	43,418	-	-
Short term timing differences	(17,736)	(14,812)	-	-
Losses	<u>(41,069)</u>	<u>(28,606)</u>	<u>(29,693)</u>	<u>(19,044)</u>
	<u>-</u>	<u>-</u>	<u>(29,693)</u>	<u>(19,044)</u>

19 CALLED UP SHARE CAPITAL

	<u>Group and Company</u>	
	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
5,250,000 Authorised, issued and fully paid		
Ordinary shares of £1 each	<u>5,250</u>	<u>5,250</u>

DOW CORNING LIMITED AND SUBSIDIARIES
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20 RESERVES

	<u>Group</u> £'000	<u>Company</u> £'000
PROFIT AND LOSS		
At 1 January 1999	15,292	15,686
(Loss) for the year	<u>(32,092)</u>	<u>(30,606)</u>
At 31 December 1999	<u>(16,800)</u>	<u>(14,920)</u>
SHARE PREMIUM		
At 31 December 1999 and 1998	<u>3,063</u>	<u>3,063</u>
REVALUATION RESERVE		
At 31 December 1999 and 1998	<u>275</u>	<u>275</u>
TOTAL RESERVES AT 31 DECEMBER 1999	<u>(13,462)</u>	<u>(11,582)</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.

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1999</u> £'000	<u>Group</u> <u>1998</u> £'000	<u>1999</u> £'000	<u>Company</u> <u>1998</u> £'000
Loss for the financial year	(32,092)	(21,008)	(30,606)	(21,483)
Opening shareholders' funds	<u>23,880</u>	<u>44,888</u>	<u>24,274</u>	<u>45,757</u>
Closing shareholders' funds	<u>(8,212)</u>	<u>23,880</u>	<u>(6,332)</u>	<u>24,274</u>

Shareholders' funds are entirely attributable to equity shareholders.

22 EVENTS SINCE THE BALANCE SHEET DATE

On 5 July 2000, the company's authorised share capital was increased by £165,000,000 by the creation of 165,000,000 ordinary shares of £1 each. At that date 100,000,000 ordinary shares were allotted, fully paid and issued to the company's holding company Dow Corning Corporation. The shares were issued at par and the consideration was settled in cash.

DOW CORNING LIMITED AND SUBSIDIARIES
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23 GROSS CASH FLOWS

	1999 £'000	Group 1998 £'000
Returns on Investments and Servicing of Finance		
Interest received	139	333
Interest paid	<u>(10,990)</u>	<u>(11,020)</u>
	<u>(10,851)</u>	<u>(10,687)</u>
Capital Expenditure		
Payments to acquire tangible fixed assets	(38,929)	(79,239)
Receipts from the sale of tangible fixed assets	<u>1,160</u>	<u>-</u>
	<u>(37,769)</u>	<u>(79,239)</u>
Financing		
New Intercompany loans	28,000	49,300
Intercompany loans repaid	(31,975)	-
Payment of finance lease liability	<u>(16)</u>	<u>(52)</u>
	<u>(3,991)</u>	<u>49,248</u>

24 ANALYSIS OF CHANGES IN NET DEBT

	<u>At 1 January 1999</u> £'000	<u>Cash Flows</u> £'000	<u>Interest Accrual</u> £'000	<u>At 31 December 1999</u> £'000
Cash in hand at bank	280	220	0	500
Overdrafts	<u>(3,616)</u>	<u>2,906</u>	<u>0</u>	<u>(710)</u>
Net Cash	<u>(3,336)</u>	<u>3,126</u>	<u>0</u>	<u>(210)</u>
Debt due < 1 year	(31,975)	(16,781)	10,378	(38,378)
Debt due > 1 year	<u>(250,006)</u>	<u>1</u>	<u>-</u>	<u>(250,005)</u>
Total	<u>(285,317)</u>	<u>(13,654)</u>	<u>10,378</u>	<u>(288,593)</u>

DOW CORNING LIMITED AND SUBSIDIARIES
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25 OPERATING LEASE COMMITMENTS

The amount of rentals payable by the group in the year ended 31 December 1999 in respect of rentals under operating leases is as follows:

	<u>Land and Buildings</u>	<u>Other</u>	<u>Total operating lease rentals payable in 1999</u>
	£'000	£'000	£'000
Commitments expiring in 2000	0	367	367
Commitments expiring 2000 - 2004 inclusive	0	333	333
Commitments expiring after 2004	<u>510</u>	<u>-</u>	<u>510</u>
	<u>510</u>	<u>700</u>	<u>1,210</u>

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

26 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 1999 are shown as follows:

	<u>Raw materials</u>	<u>Electricity and steam</u>	<u>Other services</u>
Contract expiry date	2003	2012	2024
Minimum payments due are as follows:	£'000	£'000	£'000
2000	47,027	11,849	3,767
2001	36,665	13,664	3,767
2002	37,521	14,366	3,767
2003	22,104	14,800	3,767
2004	Nil	15,334	3,767
thereafter	Nil	119,755	60,441

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27 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 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 schemes' assets was £107,132,000 and that the actuarial value of those assets represented 98% and 95% of the benefits accrued to members of the industrial staff and staff schemes respectively, having taken account of expected future increases in earnings.

The above actuarial valuation indicated a deficit of £403,000 in respect of the industrial staff pension scheme and a deficit of £3,398,000 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.

Each of the subsidiaries operates its own pension scheme. 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.

Amounts charged to pension expense for the year were as follows:	<u>1999</u>	<u>1998</u>
	£'000	£'000
Dow Corning Limited -	2,834	2,467
Dow Corning STI Limited	66	116
Dow Corning Hansil Limited	<u>117</u>	<u>148</u>
	<u>3,017</u>	<u>2,731</u>

The company made no additional contributions in 1999 (1998 £239,000).

**DOW CORNING LIMITED AND SUBSIDIARIES
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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 group.