Company Registration No. 06376744

Momentive Performance Materials Limited

Annual Report and Financial Statements for the year ended 31 December 2017

Momentive Performance Materials Limited

Contents

Momentive Performance Materials Limited

Officers and professional advisers

Directors

Peter Bering
Jonathan Chard

Secretary

Abogado Nominees Limited

Registered office

5 Cranfield Road
Lostock Industrial Estate
Lostock, Bolton
BL6 4QD

Registered number

06376744

Principal bankers

Deutsche Bank AG
London Branch Winchester House
1 Great Winchester Street
London
EC2N 2DB

Independent auditors

PricewaterhouseCoopers LLP
One Kingsway
Cardiff
CF10 3PW

Momentive Performance Materials Limited

Strategic Report for the year ended 31 December 2017

The directors present their Strategic Report on the Company for the year ended 31 December 2017.

Review of the business
Momentive Performance Materials Limited continues to operate as a tolling entity, in which sales are made wholly to the Company's parent on a cost-plus basis. The result for the year was a loss for the financial year of £95,893 (2016: £81,115). The Company increased turnover in the year to £4,767,191 (2016: £4,579,344), and the Company made an operating profit of £285,431 (2016: £286,464), before the payment of interest to group undertakings. The long term strategy is to continue to fulfil the requirements of the parent under the tolling agreement.

General
In all of Momentive operations product safety, employee health and safety, and environmental care are important elements in the development of the Company strategy. It is the responsibility of each Momentive company to ensure that corporate environmental policy is put into practice. This includes protecting the environment by limiting the environmental impact of operations, meeting the requirements of legislation and training employees on environmental health and safety concerns. In order to remain competitive in the future economic environment the Company will further change the mix from commodity to specialty products and.continue to focus efforts around productivity and cost reductions in both manufacturing and services.

Principal risks and uncertainties
The directors believe that the Company's activities expose it to a limited number of financial risks.The general economic environment continues to provide challenges to the business. Risks and uncertainties are managed and mitigated as part of the risk management strategy of the Momentive Performance Materials European Group.

The directors apply Momentive Performance Materials European Group policies that seek to limit any adverse financial effects of these risks and these policies are implemented by the Momentive Europe Finance Department. The Momentive Group has standard policies which set out specific guidance on how credit risk is managed. Liquidity risk is managed through a Momentive Europe cash pooling arrangement, which is used to maintain the working capital requirements of the Company on a day to day basis. Currency risk through trading in export markets in foreign currency is managed through forecasting sales and purchases. No hedge accounting is applied.

Financial key performance indicators
As the Company acts as a tolling entity of parent Momentive Performance Materials GmbH, the financial risks are limited. The directors continue to focus efforts around productivity and cost reductions in both manufacturing and service. These are kept under regular review by the Directors and appropriate action taken as required.

Non-financial key performance indicators
The directors believe that the use of non-financial KPIs is not necessary for an understanding of the results and operations of the business.

This report was reviewed by the board and signed on its behalf by:

Peter Bering
Director
Date: 19 September 2018

Momentive Performance Materials Limited

Directors' Report for the year ended 31 December 2017

The directors present their Annual Report and the audited financial statements for the year ended 31 December 2017.

Principal activities
The Company is a wholly owned subsidiary of Momentive Performance Materials GmbH, Leverkusen, Germany, which operates as the parent of the Momentive Performance Materials European Group, hereafter "European Momentive Group".

The European Momentive Group is engaged in the business of producing, marketing and selling a variety of silicone based products to external customers throughout Europe, the Middle East, Africa and India. The European Momentive Group also sells products to affiliated Momentive Performance Materials operations in both the Americas and the Pacific region. The European Momentive Group headquarters and principal manufacturing plant are located in Leverkusen, Germany.

The Company owns and operates a compounding and packaging operation, located in Lostock, UK.

The Company entered into a toll compounding and commercial services agreement with Momentive Performance Materials GmbH, Leverkusen, Germany, hereafter "the GmbH". Under the terms of this agreement, the Company provides field sales and marketing services, customer support to the European customers, in addition to compounding and packaging services for the GmbH. The Company receives compensation for these services on a cost-plus fee basis.

Review
The results of the Company are shown on page 8. The Company is exempt from the requirement to prepare an enhanced business review as it qualifies as a small company.

Future developments
The directors expect the Company to continue to operate as a tolling and commercial services entity within the Momentive Group, which makes sales to the parent on a cost-plus basis.

On 13 September 2018, MPM Holdings Inc. and SJL Partners LLC, KCC Corporation and Wonik QnC Corporation ("the Investor Group"), announced that they have entered into a definitive merger agreement whereby the Investor Group will acquire MPM Holdings Inc. in a transaction valued at approximately $3.1 billion, including the assumption of net debt, pension and OPEB liabilities. The transaction is not subject to any financing contingency and is expected to close in the first half of 2019, subject to regulatory approvals and other customary closing conditions.

Employees
The Company supports the principle of equal opportunities. Its policy is that there should be no unfair discrimination on the grounds of sex, religion or race. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interest. Employees are made aware of the financial and economic performance of their business unit and of the Company as a whole. Communication with employees continues through briefing groups and newsletters.

Health and safety
In all of Momentive operations product safety, employee health and safety, and environmental care are important elements in the development of the Company strategy. It is the responsibility of each Momentive company to ensure that corporate environmental policy is put into practice. This includes protecting the environment by limiting the environmental impact of operations, meeting the requirements of legislation and training employees on environmental health and safety concerns.

Dividends
The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

Political and charitable donations
The Company made no political or charitable donations in the year (2016: £nil).

Directors
The directors of the Company who were in office during the year and up to the date of signing the financial statements are disclosed on page 1. The following changes in directors have taken place during the year and up to the date of signing of the financial statements:

Mathias Steiner (resigned on 1 August 2018)

Qualifying third party indemnity provision
The directors have an insurance policy in place to provide them with indemnity cover.

Financial risk management
Details of the Company's financial risk management policies can be found within the 'Principal risks and uncertainties' section of the Strategic Report.

Going concern
The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company, Momentive Performance Materials Holdings Inc . (hereafter "MPM Holdings Inc.). The directors have received confirmation that MPM Holdings Inc. intends to support the Company for at least one year after these financial statements are signed.

The Company receives reimbursement of all costs incurred in providing their principal activity plus a service fee of 6.25% on Manufacturing Costs and 7.20% for all other costs such as Selling and Administration.

Statement of directors responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006.

Directors' Report for the year ended 31 December 2017 (continued)

Disclosure of information to auditors
Each of the persons who are directors at the time this Directors' Report is approved have confirmed that:

- so far as that director is aware, there is no relevant audit information (i.e. information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- that director has taken all steps that they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent auditors
The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the Board

Peter Bering
Director
Date: 19 September 2018

Independent auditors' report to the members of Momentive Performance Materials Limited

Report on the audit of the financial statements

Opinion

In our opinion, Momentive Performance Materials Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Momentive Performance Materials Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jonathan Bound (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
19 September 2018

Momentive Performance Materials Limited

Income Statement

	Note	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Turnover	5	**4,767,191**	4,579,344
Cost of sales		**(2,522,390)**	(2,371,162)
Gross profit		**2,244,801**	2,208,182
Distribution costs		**(1,000,884)**	(903,657)
Administrative expenses		**(958,486)**	(1,018,061)
Operating profit	6	**285,431**	286,464
Interest expense	8	**(276,871)**	(270,492)
Profit before taxation		**8,560**	15,972
Tax on profit	9	**(104,453)**	(97,087)
Loss for the financial year		**(95,893)**	(81,115)

Statement of Comprehensive Income

	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Loss for the financial year	**(95,893)**	(81,115)
Other comprehensive income	**-**	-
Total comprehensive expense for the financial year	**(95,893)**	(81,115)

Momentive Performance Materials Limited

Statement of Financial Position

	Note	As at 31 December 2017 £	As at 31 December 2016 £
Fixed assets			
Intangible assets	10	**5,338,529**	**5,872,965**
Tangible assets	11	**908,679**	**869,781**
		6,247,208	**6,742,746**
Current assets			
Debtors	12	**120,987**	**118,988**
Cash at bank and in hand		**929**	**315,465**
		121,916	**434,453**
Creditors: amounts falling due within one year	13	**(5,110,891)**	**(5,837,591)**
Net current liabilities		**(4,988,975)**	**(5,403,138)**
Total assets less current liabilities		**1,258,233**	**1,339,608**
Provisions for other liabilities	14	**(95,724)**	**(81,206)**
Net assets		**1,162,509**	**1,258,402**
Capital and reserves			
Called up share capital	16	**1,000**	**1,000**
Share premium account	17	**3,172,901**	**3,172,901**
Accumulated losses	17	**(2,011,392)**	**(1,915,499)**
Total equity		**1,162,509**	**1,258,402**

The notes on pages 11 to 25 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of directors on 19 September 2018 and were signed on its behalf by:

Director
Peter Bering
Momentive Performance Materials Limited
Registered No. 06376744

Momentive Performance Materials Limited

Statement of Changes in Equity

	Called-up share capital £	Share premium account £	Accumulated losses £	Total £
At 1 January 2016	1,000	3,172,901	(1,834,384)	1,339,517
Loss for the financial year	-	-	(81,115)	(81,115)
Total comprehensive expense for the year	-	-	(81,115)	(81,115)
At 31 December 2016	**1,000**	**3,172,901**	**(1,915,499)**	**1,258,402**
At 1 January 2017	1,000	3,172,901	(1,915,499)	1,258,402
Loss for the financial year	-	-	(95,893)	(95,893)
Total comprehensive expense for the year	-	-	(95,893)	(95,893)
At 31 December 2017	**1,000**	**3,172,901**	**(2,011,393)**	**1,162,509**

Momentive Performance Materials Limited

Notes to the financial statements

1. General information

Momentive Performance Materials Limited ('the Company') is engaged in the business of producing, marketing and shipping a variety of silicone based products to external customers. The Company is a service entity and provides sales and marketing services to parent company Momentive Performance Materials GmbH. The Company has a compounding plant in the UK.

The Company is incorporated and domiciled in the UK and is part of Momentive Performance Materials Holdings Inc., a global business manufacturing silicone and quartz based products. The address of its registered office is 5 Cranfield Road, Lostock Industrial Estate, Lostock, Bolton, BL6 4QD.

2. Statement of compliance

The individual financial statements of Momentive Performance Materials Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation
These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(b) Going concern
The Company meets its day-to-day working capital requirements through the group's centralized treasury arrangements and shares a cash pooling arrangement with Momentive's other operations in Europe. The directors, having assessed the responses of the directors of the Company's ultimate parent MPM Holdings Inc., have no reason to believe that a material uncertainty exists that may cast significant doubt in the ability of MPM Holdings Inc. to continue as a going concern or its ability to continue with the current banking arrangements.

On this basis of this assessment, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The directors have received confirmation that MPM Holdings Inc. intends to support the Company for at least one year after these financial statements are signed. The Company receives reimbursement of all tolling costs incurred in providing their principal activity plus a service fee of 6.25% on compounding costs and 7.20% for all other costs such as selling and administration.

(c) Exemptions for qualifying entities under FRS 102
The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, MPM Holdings Inc. includes the Company's cash flows in its own consolidated financial statements.

Notes to the financial statements

3. Summary of significant accounting policies (continued)

(d) Foreign currency
(i) Functional and presentational currency
The Company's functional and presentational currency is the pound sterling.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Income Statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance (expense)/income'. All other foreign exchange gains and losses are presented in the Income Statement within 'other operating (losses)/gains'.

(e) Turnover recognition
Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Company and value added taxes.

The Company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Company recognizes turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of turnover can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Company's sales channels have been met, as described below.

Sale of goods
The company recognises turnover when all the following conditions are satisfied:

(a) the significant risks and rewards of ownership have been transferred to the buyer;
(b) the company retains no continuing involvement or control over the goods;
(c) the amount of turnover can be measured reliably;
(d) it is probable that future economic benefits will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(f) Exceptional items
The Company classifies charges or credits that have a material impact on the Company's financial results as 'exceptional items'. If applicable, these are disclosed separately to provide further understanding of the financial performance of the Company.

(g) Employee benefits
The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and a contribution pension plan.

3. Summary of significant accounting policies (continued)

(g) Employee benefits (continued)
(i) Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognized as an expense in the period in which the service is received.

(ii) Defined contribution pension plans
The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognized as an expense when they are due. Amounts not paid are shown in accruals in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

(iii) Annual bonus plan
The Company operates an annual bonus plan for employees. An expense is recognized in the Income Statement when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(h) Taxation
Taxation expense for the period comprises current and deferred tax recognized in the reporting period. Tax is recognized in the Income Statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax
Deferred tax arises from temporary differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These temporary differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognized in financial statements.

Deferred tax is recognized on all temporary differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognized when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(i) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Under the FRS 102 section 18 and 19, goodwill arising on acquisitions has been capitalised and is being amortised over 20 years, being the period expected to benefit. The Company evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the Income Statement.

3. Summary of significant accounting policies (continued)

Software costs

Computer software is stated at cost less accumulated amortization and accumulated impairment losses. Software is amortized over its estimated useful life, of between 3 and 5 years, on a straight line basis. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortization rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

(j) Tangible assets
Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalized.

(i) Plant and machinery and fixtures, fittings, tools and equipment
Plant and machinery and fixtures, fittings, tools and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Depreciation and residual values
Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

- Plant and machinery – 10 – 15 years
- Fixtures, fittings. tools and equipment - 10 – 15 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(iii) Subsequent additions and major components
Subsequent costs, including major inspections, are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognized. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life. Repairs, maintenance and minor inspection costs are expensed as incurred.

(iv) Assets in the course of construction
Assets in the course of construction are stated at cost. These assets are not depreciated until it is available for use.

(v) De-recognition
Tangible assets are derecognized on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognized in profit or loss and included in 'Other operating (losses)/gains'.

(k) Leased assets
At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

3. Summary of significant accounting policies (continued)

(l) Cash at bank and in hand
Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(m) Impairment of non-financial asset

At each Statement of Financial Position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized in the Income Statement, unless the asset has been revalued when the amount is recognized in other comprehensive income to the extent of any previously recognized revaluation. Thereafter any excess is recognized in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognized in prior periods. A reversal of an impairment loss is recognized in the Income Statement.

(n) Provisions and contingencies

(i) Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

In particular:

(a) Restructuring provisions are recognized when the Company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.

(b) Provision is not made for future operating losses.

All provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a finance cost.

3. Summary of significant accounting policies (continued)

(n) Provisions and contingencies (continued)
(ii) Contingencies
Contingent liabilities, arising as a result of past events, are not recognized when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognized. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(o) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Related party disclosures
The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(q) Financial instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets
The Company only enters into basic financial assets, including trade and other debtors and cash and bank balances. These are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in the Income Statement.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognized the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognized. The impairment reversal is recognized in the Income Statement.

Financial liabilities
Basic financial liabilities, including trade and other creditors, bank loans and balances due to from fellow group companies, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

4. Critical accounting judgements and estimation uncertainty

In applying the accounting policies detailed above, decisions sometimes have to be made as to the likely outcome of future events. Those judgements and estimates made in preparing the financial statements are based on historical experience and assumptions that the directors believed were reasonable in the circumstances.

(i) Useful economic lives of tangible assets
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property plant and equipment, and note 3 for the useful economic lives for each class of assets.

(ii) Goodwill
The directors derive a reliable estimate of the useful life of goodwill arising on business combinations. The estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed and any legal, regulatory or contractual provisions that can limit the useful economic life.

5. Turnover

Analysis of turnover by geography:

	2017	2016
	£	£
United Kingdom	-	-
Rest of Europe	**4,767,191**	4,579,344
	4,767,191	4,579,344

Analysis of turnover by category:

	2017	2016
	£	£
Sales of goods	**4,767,191**	4,579,344
	4,767,191	4,579,344

6. Operating profit

Operating profit is stated after charging/(crediting):

	2017	2016
	£	£
Wages and salaries	**1,940,694**	1,912,343
Social security costs	**203,595**	197,731
Pension costs (Note 18)	**229,873**	196,632
Total staff costs	**2,374,162**	2,306,706
Operating lease rentals:		
- vehicles	**48,747**	51,930
- plant and equipment	**37,103**	40,497
- land and buildings	**106,063**	106,918
Audit fees payable to the Company's auditors	**11,500**	11,100
Foreign exchange losses/(gains)	**996**	(2,434)
Depreciation of owned assets	**183,626**	175,407
Goodwill amortisation	**533,722**	533,722
Software amortisation	**715**	715

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditor for 'Other services' as this information is included in the consolidated financial statements of MPM Holdings Inc.

Notes to the financial statements

7. Employees and directors

Employees

The average monthly number of persons (including executive directors) employed by the Company during the year was:

By activity	**2017** **No.**	2016 No.
Production	**27**	21
Sales	**3**	-
Administration	**9**	19
	39	40

Directors

The directors' emoluments were as follows:	**2017** **£**	2016 £
Aggregate emoluments	**153,370**	147,794
Company contributions to defined contribution schemes	**21,847**	19,756
Aggregate amounts receivable under long-term incentive schemes (excluding shares)	**-**	-
	175,217	167,550

	2017 **No.**	2016 No.
Post-employment benefits are accruing for the following directors, who are members of defined contribution schemes	**1**	1

8. Interest expense

Interest payable and similar charges

	2017 **£**	2016 £
Interest payable on inter-company loans	**276,871**	270,492
Total interest payable and similar charges	**276,871**	270,492

9. Tax on profit

a) Tax expense included in the Income Statement

	2017 £	2016 £
Current tax		
- UK Corporation tax on profit for the year	**88,854**	119,505
- Adjustment in respect of prior year	**1,081**	(8,010)
Total current tax charge	**89,935**	111,495
Deferred tax:		
- Origination and reversal of timing differences	**15,144**	(7,282)
- Adjustments in respect of prior periods	**(626)**	(1,921)
- Effect of tax rate change on opening balance	**-**	(5,205)
Total deferred tax charge/(credit)	**14,518**	(14,408)
Tax on profit	**104,453**	97,087

b) Reconciliation of tax charge

Tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained below:

	2017 £	2016 £
Profit before taxation	**8,560**	**15,972**
Tax on profits at standard CT rate in the UK of 19.25% (2016: 20%)	**1,648**	**3,194**
Effects of:		
- Expenses not deductible for tax purposes	**102,350**	**107,744**
- Adjustment from previous periods	**455**	**(9,930)**
- Tax rate changes	**-**	**(3,921)**
Tax charge for the year	**104,453**	**97,087**

The standard rate of corporation tax prevailing in the UK from 1 April 2015 to 1 April 2017 was 20%. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the Statement of Financial Position date have been measured using these enacted tax rates and reflected in these financial statements.

Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 19.25%. The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017 and hence the effective rate of 20.00% was used in the 2016 accounting period.

Notes to the financial statements

10. Intangible fixed assets

	Goodwill £	Software £	Total £
At 1 January 2017			
Cost	10,674,434	3,610	10,678,044
Accumulated amortization	(4,803,497)	(1,582)	(4,805,079)
Net book value	**5,870,937**	**2,028**	**5,872,965**
Year ended 31 December 2017			
Opening net book amount	5,870,937	2,028	5,872,965
Additions	-	6,959	6,959
Amortisation	(533,720)	(7,675)	(541,395)
Closing net book value	**5,337,217**	**1,312**	**5,338,529**
At 31 December 2017			
Cost	10,674,434	10,569	10,685,003
Accumulated amortization	(5,337,217)	(9,257)	(5,343,474)
Net book value	**5,337,217**	**1,312**	**5,338,529**

Goodwill
Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised. The goodwill arose when Momentive Performance Materials Limited purchased the trade and assets of the UK branch of Momentive Performance Materials GmbH in 2008. Positive goodwill is amortised on a straight line basis and has a remaining amortisation period of 10 years.

Software
The software intangible assets include the Company's fixed assets management system. The asset is carried at £1,312 (2016: £2,028) and has a remaining amortisation period of 2 years. There are no other individually material intangible assets.

11. Tangible fixed assets

	Plant and equipment £	Fixtures, fittings, tools and equipment £	Total £
At 1 January 2017			
Cost	2,612,517	110,332	2,722,849
Accumulated depreciation and impairment	(1,745,718)	(107,350)	(1,853,068)
Net book value	**866,799**	**2,982**	**869,781**
Year ended 31 December 2017			
Opening net book value	866,799	2,982	869,781
Addition	799,210	107,018	906,228
Depreciation	(861,926)	(5,404)	(867,330)
Closing net book value	**804,083**	**104,596**	**908,679**
At 31 December 2017			
Cost	3,411,727	210,392	3,622,119
Accumulated depreciation and impairment	(2,607,644)	(105,796)	(2,713,440)
Closing net book value	**804,083**	**104,596**	**908,679**

The Company entered, together with other group entities, into an asset-based group financing facility. Plant and equipment have been pledged as securities for this facility. The Company did not utilize this facility and has therefore no outstanding borrowing under this facility as per 31 December 2017.

Notes to the financial statements

12. Debtors

	2017 £	2016 £
Other debtors	**61,444**	51,699
Prepayments and accrued income	**59,543**	67,289
	120,987	118,988

13. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	**152,908**	105,771
Amounts owed to group undertakings	**4,610,365**	5,372,309
Corporation tax	**28,854**	36,963
Accruals and deferred income	**318,764**	322,548
	5,110,891	5,837,591

There are no fixed repayment dates for amounts owed to group undertakings. Interest on amounts owed to group undertakings accrues at a rate of 3.05% per annum.

14. Provisions for other liabilities

	Deferred tax £
Balance brought forward at 1 January 2017	81,206
Income Statement (see note 9)	14,518
Balance carried forward at 31 December 2017	**95,724**

The provision for deferred taxation consists of the following:

	2017 £	2016 £
Accelerated capital allowances	**95,724**	81,206
Other timing differences	-	-
Deferred tax	**95,724**	81,206

There are no unused tax losses or unused tax credits.

Notes to the financial statements

15. Financial instruments

The Company has the following financial instruments

	2017	2016
	£	£
Financial assets that are debt instruments measured at amortised cost		
- Other debtors	**120,987**	118,988
	120,987	118,988
Financial liabilities measured at amortised cost		
- Trade creditors	**152,908**	105,771
- Amounts owed to group undertakings	**4,610,365**	5,372,309
	4,763,273	5,478,080

The Company has no derivative financial instruments (2016: £nil).

16. Called up share capital

	2017	2016
	£	£
Called up, allotted and fully paid		
1,000 (2016: 1,000) ordinary shares of £1 each	**1,000**	1,000

There is a single class of ordinary shares. There are no restrictions on distributions of dividends and the repayment of capital.

17. Reserves

Share premium account

The share premium account represents the consideration received on the issue of shares in the Company in excess of the nominal value of those shares, net of share issue costs, bonus issues of shares and any subsequent capital reductions.

Accumulated losses

The accumulated losses represents the accumulated profits, losses and distributions of the Company.

18. Post-employment benefits

The Company provides a group personal pension arrangement for its employees. The amount recognized as an expense for this defined contribution arrangement was £229,873 (2016: £196,632). There was an amount of £nil outstanding at the year-end (2016: £nil).

19. Contingent liabilities

In the opinion of the directors, there were no material contingent liabilities or commitments requiring disclosure.

20. Capital and other commitments

The Company had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	2017	2016
	£	£
Within one year	**173,136**	189,357
Within two to five years	**397,028**	591,286
After five years	**4,271**	23,647
	574,435	804,290

The contracts authorized for future capital expenditure not provided in these financial statements was £nil (2016: £nil).

In the opinion of the directors, there were no material contingent liabilities or commitments requiring disclosure. The Company had no other off balance sheet commitments.

21. Related party disclosures

The Company is exempt from disclosing transactions with members of the group headed by MPM Holdings Inc. that are wholly owned within the group.

Key management, in addition to the directors, include a number of senior managers who have the authority and responsibility for planning, directing and controlling the activities of the Company. The total compensation paid to key management personnel for services provided to the Company was £219,976 (2016: £223,148).

22. Controlling parties

The immediate parent undertaking is Momentive Performance Materials GmbH.

The ultimate parent company is MPM Holdings Inc., Waterford, NY. MPM Holdings Inc. is the parent undertaking of the group of undertakings to consolidate these financial statements. The consolidated financial statements of MPM Holdings Inc. can be obtained from the Company's registered office at 260 Hudson River Road, Waterford, NY 12188, USA.