

Hexion UK Limited

**Annual Report and Financial Statements
for the year ended 31 December 2015**



Hexion UK Limited

Contents

Officers and professional advisers	1
Strategic Report.....	2
Directors' Report	4
Independent auditors' report to the members of Hexion UK Limited	7
Income Statement	9
Statement of Comprehensive Income.....	9
Statement of Financial Position	10
Statement of Changes in Equity.....	11
Notes to the Financial Statements	12

Hexion UK Limited

Officers and professional advisers

Directors

J.V. Baker
A. Mertens
G.C.M. Gallacher
M.D. Bidstrup

Secretary

J.S. Welfoot

Registered Office

Sully Moors Road
Sully
Vale of Glamorgan
CF64 5YU

Registered number

00867053

Bankers

Bank of America
26 Elmfield Road
Bromley, Kent
BR1 1WA

ABN AMRO Bank
Coolsingel 119
Postbus 949
3000 DD Rotterdam

Solicitors

Geldards LLP
Cardiff
CF10 3ZF

Independent Auditors

PricewaterhouseCoopers LLP
One Kingsway
Cardiff
CF10 3PW

Hexion UK Limited

Strategic Report for the year ended 31 December 2015

The directors present their Strategic Report on the Company for the year ended 31 December 2015.

Review of the business

Hexion UK Limited continues as the trading entity for the Hexion business in the UK. The results for the financial year are set out in the Income Statement on page 9. The profit after taxation is £6,656,000 (2014: £3,741,000). The financial position of the Company at the year-end is set out in the Statement of Financial Position on page 10. The directors expect the Company to continue to perform satisfactorily in the forthcoming year.

General

In all of Hexion operations product safety, employee health and safety, and environmental care are important elements in the development of the group strategy. It is the responsibility of each Hexion company to ensure 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 number of financial risks, mainly around raw material pricing risk. Raw materials pricing remains competitive and it is not always possible to pass directly any increases to the end customer due to contractual or competitors' pricing policies. Also the general economic environment continues to provide challenges to the business.

The financial risks the Company's operations are exposed to include price, credit, liquidity and cash flow risks. The directors apply Hexion Group policies that seek to limit any adverse financial effects of these risks and these policies are implemented by the Hexion Europe Finance Department. The Hexion Group has standard policies which set out specific guidance on how credit risk is managed. Liquidity risk is managed through a Hexion 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

The directors focus on operating profit and measures to improve overall profitability, including by changing the product mix from commodity to specialty products and continuing 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 are not necessary for an understanding of the results and operations of the business.

Hexion UK Limited

Strategic Report for the year ended 31 December 2015 (continued)

Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2015. Note 27 details the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

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



A. Mertens
Director

Date: ~~2~~ 7 September 2016

Hexion UK Limited

Directors' Report for the year ended 31 December 2015

The directors present their Annual Report and the audited financial statements for the year ended 31 December 2015. All amounts disclosed in the financial statements are rounded to the nearest £'000.

Principal activities

The Company manufactures and sells adhesives and resins for use in a wide variety of applications, which are broadly categorized into Forest Product Resins, Formaldehyde and Performance Resins.

Review

The results for the financial year are set out in the Income Statement on page 9. The profit for the year ended 31 December 2015 after taxation was £6,656,000 (2014: £3,741,000).

Future developments

The directors expect the Company to perform satisfactorily during the forthcoming financial year.

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:

G.F. Knight (resigned on 1 January 2016)
M.D. Bidstrup (appointed on 1 January 2016)

Branches outside the UK

Hexion UK Limited operates in the Netherlands, where the Company owns a plant in Rotterdam that is specialized in Forest Product Resin production.

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 Hexion 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 Hexion 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 2015 (2014: £nil).

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

After making enquiries, the directors confirm that the going concern basis has been adopted in preparing the Directors' Report and financial statements.

Hexion UK Limited

Directors' Report for the year ended 31 December 2015 (continued)

Research and development

The Company incurred expenditure amounting to £842,000 (2014: £827,000) on research and development during the year.

Political and charitable donations

The Company made no political or charitable donations in the year (2014: £nil).

Qualifying third party indemnity provision

The directors have an insurance policy in place to provide them with indemnity cover.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; 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 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. They 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.

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.

Hexion UK Limited

Directors' Report for the year ended 31 December 2015 (continued)

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



A. Mertens
Director

Date: 27 September 2016

Hexion UK Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEXION UK LIMITED

Report on the financial statements

Our opinion

In our opinion, Hexion UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2015;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEXION UK LIMITED (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

27 September 2016

Hexion UK Limited

Income Statement

	Note	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Turnover	5	102,108	115,379
Cost of sales		(83,576)	(97,332)
Gross profit		18,532	18,047
Distribution costs		(4,637)	(4,068)
Administrative expenses		(9,660)	(11,096)
Operating profit	6	4,235	2,883
Profit on sale of business	7	1,784	-
Profit on ordinary activities before interest and taxation		6,019	2,883
Interest receivable and similar income	9	737	1,093
Interest payable and similar charges	9	(54)	(435)
Net interest income	9	683	658
Profit on ordinary activities before taxation		6,702	3,541
Tax on profit on ordinary activities	10	(46)	200
Profit for the financial year		6,656	3,741

Statement of Comprehensive Income

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Profit of the financial year	6,656	3,741
Other comprehensive income	-	-
Total comprehensive income for the financial year	6,656	3,741

Hexion UK Limited

Statement of Financial Position

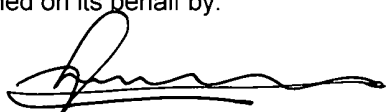
	Note	As at 31 December 2015 £'000	As at 31 December 2014 £'000
Fixed assets			
Intangible assets	11	53	16
Tangible assets	12	13,804	13,451
		13,857	13,467
Current assets			
Inventory	13	3,852	3,346
Debtors	14	78,420	76,476
Cash at bank and in hand		255	963
		82,527	80,785
Creditors: amounts falling due within one year	15	(23,577)	(28,266)
Net current assets		58,950	52,519
Total assets less current liabilities		72,807	65,986
Creditors: amounts falling due after more than one year	16	(165)	(166)
Provisions for other liabilities	17	(360)	(194)
Net assets		72,282	65,626
Capital and reserves			
Called up share capital	19	2	2
Share premium account	20	25,127	25,127
Retained earnings	20	47,153	40,497
Total equity		72,282	65,626

The notes on pages 12 to 30 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of directors on 27 September 2016 and were signed on its behalf by:

Arno Mertens
Director

Hexion UK Limited
Registered No. 00867053



Hexion UK Limited

Statement of Changes in Equity

	Called-up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January 2014	2	25,127	36,756	61,885
Profit for the financial year	-	-	3,741	3,741
Total comprehensive income for the year	-	-	3,741	3,741
At 31 December 2014	2	25,127	40,497	65,626
At 1 January 2015	2	25,127	40,497	65,626
Profit for the financial year	-	-	6,656	6,656
Total comprehensive income for the year	-	-	6,656	6,656
At 31 December 2015	2	25,127	47,153	72,282

Hexion UK Limited

Notes to the financial statements

1. General information

Hexion UK Limited ('the Company') designs and manufactures chemicals. The Company has manufacturing plants in the UK and sells primarily to the UK and the rest of Europe. The Company is incorporated and domiciled in the UK and is part of Hexion Inc., a world leader in specialty chemicals. The address of its registered office is Sully Moors Road, Sully, Vale of Glamorgan, CF64 5YU.

2. Statement of compliance

The individual financial statements of Hexion UK 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. Details of the transition to FRS 102 are disclosed in note 27.

(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 other Hexion operations in Europe. The directors, having assessed the responses of the directors of the Company's parent Hexion Inc., have no reason to believe that a material uncertainty exists that may cast significant doubt in the ability of Hexion 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.

(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, Hexion Inc., includes the Company's cash flows in its own consolidated financial statements. In addition, the Company has taken advantage of the exemption, under FRS 102 paragraph 26.18(b), 26.19 to 26.21 and 26.23, concerning group equity instruments and has not disclosed the share-based payments of any director as they are share-based payment arrangements which concern equity instruments of the Hexion group entity. Equivalent disclosures have been made in the groups consolidated financial statements.

Hexion UK Limited

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.

(i) Sale of goods

The Company shall recognise turnover from the sale of goods when all the following conditions are satisfied:

- (a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of turnover can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest income

Interest income is recognized using the effective interest rate method.

Hexion UK Limited

Notes to the financial statements

3. Summary of significant accounting policies (continued)

(f) Exceptional items

The Company classifies certain one-off charges or credits that have a material impact on the Company's financial results as 'exceptional items'. 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.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised 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. In this case tax is also recognized in other comprehensive income or directly in equity respectively.

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 timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing 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 timing 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.

Notes to the financial statements

3. Summary of significant accounting policies (continued)

(i) Intangible assets

Computer software is stated at cost less accumulated amortization and accumulated impairment losses. Software is amortized over its estimated useful life, of between three and five 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) Land and buildings

Land and buildings include freehold manufacturing sites and offices. Land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Plant and machinery

Plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) 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:

- Freehold buildings – over periods up to 50 years
- Plant and machinery – 10 – 30 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.

(iv) 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.

(v) 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.

(vi) De-recognition

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

Notes to the financial statements

3. Summary of significant accounting policies (continued)

(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.

(i) 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.

(l) Inventories

Inventories are stated at the lower of historical cost and estimated selling price less costs to complete and sell. Inventories are recognized as an expense in the period in which the related revenue is recognized.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity).

At the end of each reporting period, inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the Income Statement. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the Income Statement.

(m) 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.

(n) Group relief

Group relief is surrendered to/received from other group companies for no consideration.

In specific circumstances, individual group companies may reach agreement between themselves to surrender and/or receive group relief for consideration within the tax on profit on ordinary activities with the Income Statement.

Should group relief be surrendered to/received from other group companies for consideration, the consideration paid will reflect, at a minimum, the corporation tax amounts surrendered and/or received. These amounts are reported as expenses or benefits within the tax on profit/(loss) on ordinary activities within 'Retained earnings'.

On a discretionary basis, group companies, may agree to compensate for amounts in excess of the corporation tax amounts surrendered and/or received. In this instance, the excess over the corporation tax amount is shown as a separate movement within the 'Retained earnings' reserve on the Statement of Financial Position.

Notes to the financial statements

3. Summary of significant accounting policies (continued)

(o) 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 recognised in the Income Statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised 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 recognised in prior periods. A reversal of an impairment loss is recognised in the Income Statement.

(p) 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; and

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

(c) Environmental provisions are recognized when there is a legal or constructive obligation as a result of past events. The provision is based on management's best estimate of the liabilities.

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.

Notes to the financial statements

3. Summary of significant accounting policies (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.

(q) 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.

(r) Distributions to equity holders

Dividends and other distributions to Company's shareholders are recognized as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognized in the Statement of Changes in Equity.

(s) Related party transactions

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.

(t) 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 receivables and cash and bank balances. These are initially recognised 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 recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised 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 recognised. The impairment reversal is recognised in profit or loss.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and balances due to from fellow group companies, are initially recognised 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.

Notes to the financial statements

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 12 for the carrying amount of the property plant and equipment, and note 3 for the useful economic lives for each class of assets.

(ii) Inventory provisioning

The Company manufactures and sells adhesives and resins for use in a wide variety of applications. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 13 for the net carrying amount of the inventory and associated provision.

(iii) Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 14 for the net carrying amount of the debtors and associated impairment provision.

5. Turnover

Analysis of turnover by geography:

	2015 £'000	2014 £'000
United Kingdom	57,648	66,286
Rest of Europe	41,449	46,289
Other	3,011	2,804
	102,108	115,379

Analysis of turnover by category:

	2015 £'000	2014 £'000
Sales of goods	102,108	115,379
	102,108	115,379

Hexion UK Limited

6. Operating profit

Operating profit is stated after charging:

	2015 £'000	2014 £'000
Wages and salaries	8,305	7,595
Social security costs	866	819
Pension costs (Note 22)	512	534
Total staff costs	9,683	8,948
Reorganisation expenses (Note 17)	266	254
Loss on disposal of fixed assets	-	8
Operating lease rentals:		
- vehicles	161	168
- plant and equipment	100	114
- land and buildings	20	20
Foreign exchange losses	57	67
Audit fees payable to the Company's auditors	33	33
Research and development written off	842	827
Depreciation of owned fixed assets	1,862	2,412
Impairment of trade debtors	139	195
Inventory recognised as an expense	82,569	96,422
Impairment of inventory (included in cost of sales)	62	40

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 Hexion Inc.

Administrative expenses included corporate recharges of £2,904,000 (2014: £3,637,000).

7. Profit on sale of business

	2015 £'000	2014 £'000
Profit on sale of Foundry business	1,784	-
	1,784	-

On 2 November 2015, Hexion Inc. sold its European wide Foundry business to ASK Chemicals. As part of the sale Hexion have entered into a long term tolling manufacturing agreement, whereby Hexion's European businesses will continue to manufacture and supply products for ASK Chemical. As a result there is no change to the products or production process. The purchase was therefore an intangible asset purchase of the European business book and the above profit was the amounts calculated and allocated to the Company as part of the sale and purchase agreement.

Notes to the financial statements

8. Employees and directors

Employees

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

By Activity	2015 No.	2014 No.
Production	105	93
Sales	12	19
Administration	40	35
	157	147

During the year, 2 directors received emoluments from the Company (2014: 2), being J V Baker and G C M Gallacher. Emoluments in respect of other directors' services are not recharged to the Company as their services are considered incidental to their services to the Group as a whole.

Directors

The directors' emoluments were as follows:	2015 £'000	2014 £'000
Aggregate emoluments	462	418
Aggregate amounts receivable under long-term incentive schemes (excluding shares)	-	-
	462	418

Highest paid director

The highest paid directors' emoluments were as follows:	2015 £'000	2014 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	296	241
Company contributions to defined contribution schemes	25	20
	321	261

	2015 No.	2014 No.
Post employment benefits are accruing for the following directors, who are members of defined contribution schemes	2	2

Notes to the financial statements

9. Net interest income

Interest receivable and similar income

	2015 £'000	2014 £'000
Interest receivable on inter-company loans	735	1,093
Bank interest receivable	2	-
Total interest received and similar income	737	1,093

Interest payable and similar charges

	2015 £'000	2014 £'000
Interest payable on inter-company loans	(8)	(402)
Interest payable on overdrafts and bank loans	(46)	(33)
Total interest payable and similar charges	(54)	(435)

Net interest income

	2015 £'000	2014 £'000
Interest receivable and similar income	737	1,093
Interest payable and similar charges	(54)	(435)
Total net interest income	683	658

Hexion UK Limited

Notes to the financial statements

10. Tax on profit on ordinary activities

a) Tax expense/(credit) included in the Income Statement

	2015 £'000	2014 £'000
Current tax		
- UK Corporation tax on profit for the year	61	-
- Foreign tax relief/other relief	(61)	-
- Foreign tax suffered	61	60
Total current tax	61	60
Deferred tax:		
- Origination and reversal of timing differences	(118)	(289)
- Adjustment in respect of previous periods	(53)	9
- Effect of changes in tax rates	156	20
Total deferred tax (note 21)	(15)	(260)
Tax on profit on ordinary activities	46	(200)

b) Reconciliation of tax charge/(credit)

Tax assessed for the period is lower (2014: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014: 21.50%). The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	6,702	3,541
Profit on ordinary activities before taxation multiplied by the standard rate in the UK of 20.25% (2014: 21.50%)	1,357	761
Effects of:		
- Expenses not deductible for tax purposes	48	49
- Group relief not paid for	(1,942)	(1,509)
- Transfer pricing adjustments	481	412
- Higher tax rates on overseas earnings	-	60
- Adjustment from previous periods	(53)	6
- Tax rate changes	155	21
Tax charge for the year	46	(200)

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 20.25%. The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014 and hence the effect rate of 21.50% was used in the 2014 accounting period.

Hexion UK Limited

Notes to the financial statements

10. Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

Changes to the UK corporation tax rates were announced in the Chancellor's Budgets on 8 July 2015 and 16 March 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. As the changes had not been substantively enacted at the Statement of Financial Position date their effects are not included in these statements.

The effect of a 1% reduction in the rate of corporation tax would be to reduced the deferred tax asset provided at the Statement of Financial Position date by £13,930. This decrease in deferred tax asset would decrease profit by £13,930.

11. Intangible fixed assets

	Software £'000
<hr/>	
At 1 January 2015	
Cost	439
Accumulated amortization	(423)
<hr/>	
Net book amount	16
<hr/>	
Year ended 31 December 2015	
Opening net book amount	16
Transfer	49
Amortization	(12)
<hr/>	
Closing net book amount	53
<hr/>	
At 31 December 2015	
Cost	488
Accumulated amortization	(435)
<hr/>	
Net book amount	53
<hr/>	

The software intangible assets include the Company's fixed assets management system. The asset is carried at £53,315 (2014: £16,443) and has a remaining amortisation period of 5 years.

The transfer movement balance of £49,000 represents the computer software moved from assets under construction during 2015, as disclosed under Note 12.

Hexion UK Limited

Notes to the financial statements

12. Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
At 1 January 2015				
Cost	4,492	64,796	1,926	71,214
Accumulated depreciation	(2,268)	(55,495)	-	(57,763)
Net book value	2,224	9,301	1,926	13,451
Year ended 31 December 2015				
Opening net book value	2,224	9,301	1,926	13,451
Additions	91	433	1,740	2,264
Transfers	137	1,316	(1,502)	(49)
Depreciation	(155)	(1,707)	-	(1,862)
Closing net book amount	2,297	9,343	2,164	13,804
At 31 December 2015				
Cost	4,720	66,545	2,164	73,429
Accumulated depreciation and impairment	(2,423)	(57,202)	-	(59,625)
Closing net book amount	2,297	9,343	2,164	13,804

The transfer movement balance of (£49,000) represents the computer software moved from assets under construction to the intangible fixed assets schedule during 2015, as disclosed under Note 11.

Hexion UK Limited

Notes to the financial statements

13. Inventory

	2015 £'000	2014 £'000
Raw materials and consumables	2,510	1,877
Work-in-progress	590	735
Finished goods and goods for resale	752	734
	3,852	3,346

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amounts. Inventories are stated after provisions for impairment of £62,000 (2014: £40,000). Inventory is pledged as security against the group's bank loan.

14. Debtors

	2015 £'000	2014 £'000
Trade debtors	15,178	18,917
Amounts owed by group undertakings		
- parent company	33,637	27,137
- fellow subsidiary companies	26,937	28,039
Deferred tax asset (Note 21)	1,392	1,377
Other debtors	536	229
Prepayments and accrued income	740	777
	78,420	76,476

Trade debtors are stated after provision for impairment of £139,000 (2014: £195,000).

Amounts owed by the parent undertaking are unsecured, interest free and are payable on demand.

Amounts owed by fellow subsidiaries comprise trade receivables, £1,570,000 (2014: £1,356,000); loans receivable, £25,312,000 (2014: £26,616,000); and interest receivable, £55,000 (2014: £67,000). The loans receivable are unsecured, bearing interest at an average rate of 5.4% (2014: 5.4%) and are not payable on demand.

15. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Trade creditors	7,592	7,904
Amounts owed to group undertakings		
- fellow subsidiaries	11,192	15,443
Corporation tax	-	-
Other creditors including taxation and social security	207	404
Other creditors	2,886	2,641
Accruals and deferred income	1,700	1,874
	23,577	28,266

Amounts owed to fellow subsidiaries are unsecured, interest free, do not have a fixed date of repayment and are repayable on demand.

Hexion UK Limited

Notes to the financial statements

16. Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Amounts owed to group undertakings - parent company	165	166
	165	166

Amounts owed to the parent undertaking are the Company's share of management recharges from Hexion Inc.

17. Provision for other liabilities

	Restructuring provision £'000	Environmental provision £'000	Total £'000
Balance brought forward at 1 January 2015	-	194	194
Income Statement	266	(44)	222
Utilisation	(56)	-	(56)
Balance carried forward	210	150	360

Restructuring

The provision for restructuring comprise severance payments as part of the ongoing centralisation of functions within Hexion's European operations.

Environmental

The provision reflects management's latest assessment of the estimated demolition and environmental costs of exiting from the Haverhill site. The release of £44,000 updated assessment as to the future liability.

Hexion UK Limited

Notes to the financial statements

18. Financial instruments

The Company has the following financial instruments

	2015 £'000	2014 £'000
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors	15,178	18,917
- Amounts owed by group undertakings	60,574	55,176
- Other debtors	536	229
	76,288	74,322
Financial liabilities measured at amortised cost		
- Trade creditors	7,592	7,904
- Amounts owned to group undertakings	11,192	15,443
- Other creditors	2,886	2,641
	21,670	25,988

The Company has no derivative financial instruments (2014: nil). Tangible fixed assets, inventory and trade debtors are pledged as security against the group's bank loan.

19. Called up share capital

	2015 £'000	2014 £'000
Called up, allotted and fully paid		
1,995 (2014: 1,995) ordinary shares of £1 each	2	2

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

20. 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.

Retained earnings

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

Hexion UK Limited

Notes to the financial statements

21. Deferred tax asset

	2015 £'000	2014 £'000
Accelerated capital allowances	1,300	1,299
Other timing differences	92	78
Deferred tax	1,392	1,377

	Deferred tax asset £'000
At 1 January 2015	1,377
Charge to Income Statement	15
At 31 December 2015	1,392

There are no unused tax losses or unused tax credits.

22. Post-employment benefits

The Company provides a group personal pension arrangement for its employees. The amount recognised as an expense for this defined contribution arrangement was £512,000 (2014: £534,000). There was an amount of £nil outstanding at the year-end (2014: £nil).

23. Capital and other commitments

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

	2015 £'000	2014 £'000
Within one year	445	391
Within two to five years	131	149
After five years	100	23
	676	563

The contracts authorized for future capital expenditure not provided in these accounts was £nil (2014: £nil).

The Company had no other off balance sheet commitments.

24. Contingent liabilities

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

Hexion UK Limited

Notes to the financial statements

25. Related party disclosures

The Company is exempt from disclosing transactions with members of the group headed by Hexion 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 £586,102 (2014: £528,630).

26. Controlling parties

The immediate parent undertaking is Borden International Holdings Limited.

In 2003, 955 shares were issued to Hexion Canada Inc. (formerly Borden Chemical Canada Inc.), Borden International Holdings Limited retains 51% of the equity of the Company. The smallest and largest group which consolidates the results of the Company is that headed by Hexion Inc. The consolidated financial statements of Hexion Inc. are available from 180 East Broad Street, Columbus, Ohio 43215.

The ultimate controlling entity is Apollo Management, LP, a private investment firm based in the USA.

27. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. There were no changes in accounting policies which resulted in a change to the loss for the financial year ended 31 December 2014 or the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102. Computer software has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the company's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation.