

**Hexion UK Limited**

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



# Hexion UK Limited

## Contents

Officers and professional advisers .....	1
Strategic Report.....	2
Directors' Report .....	3
Independent auditors' report to the members of Hexion UK Limited .....	5
Income Statement .....	7
Statement of Comprehensive Income.....	7
Statement of Financial Position.....	8
Statement of Changes in Equity.....	9
Notes to the Financial Statements .....	10

# **Hexion UK Limited**

## **Officers and professional advisers**

### **Directors**

J.V. Baker  
A. Mertens  
J.P. Aucoin  
M.D. Bidstrup

### **Secretary**

J.J.A.J. Schilder

### **Registered Office**

Sully Moors Road  
Penarth  
South 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**

Squire Patton Boggs (UK) LLP  
Trinity Court  
16 John Dalton Street  
Manchester  
M60 8HS

### **Independent Auditors**

PricewaterhouseCoopers LLP  
One Kingsway  
Cardiff  
CF10 3PW

## Hexion UK 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.

#### 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 of the business

Hexion UK Limited continues as the main trading entity for the Hexion business in the UK. The results for the financial year are set out in the Income Statement on page 7. Sales in the year grew by 28% to £120.2 million (2016: £94.2 million) while operating profit fell by 43% to £4.2 million (2016: £7.4). Although the sales volume has gone up during the year, the raw material prices put the profitability under pressure. Next to it, the foreign exchange gain dropped to £0.4 million (2016: £3.2 million) as the pound was holding steadier against the euro during the year.

The financial position of the Company at the year-end is set out in the Statement of Financial Position on page 8. The Company approved and paid dividends of £58,583,000. During the year, as a part of the UK restructuring, the Company settled loans with several fellow subsidiary companies, which facilitated a dividend payment.

#### Future developments

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



A. Mertens

Director

Date: 6 July 2018

# Hexion UK 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. All amounts disclosed in the financial statements are rounded to the nearest £'000.

### 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:

J.P. Aucoin (appointed on 1 November 2017)  
G.C.M. Gallacher (resigned on 1 November 2017)

### Branches outside the UK

Hexion UK Limited operates in the Netherlands, where the Company owns a plant in Rotterdam that is specialized in formaldehyde 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 company has approved and made dividends £58,583,000 for the year ended 31 December 2017 (2016: £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.

### Research and development

The Company incurred expenditure amounting to £559,000 (2016: £792,000) on research and development during the year.

### Political and charitable donations

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

## Hexion UK Limited

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

#### Qualifying third party indemnity provision

The directors have an insurance policy in place to provide them with indemnity cover. The insurance policy was in force throughout the financial year and remains in force at the date of this report.

#### Statement of Directors' Responsibilities

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 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.

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.

#### 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



A. Mertens

Director

Date: 6 July 2018

# Hexion UK Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEXION UK LIMITED

### Report on the audit of the financial statements

#### Opinion

In our opinion, Hexion UK 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 profit 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.

# Hexion UK Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEXION UK LIMITED

### Reporting on other information (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 page 4, 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](http://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.

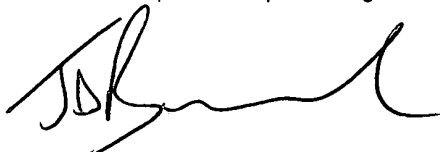
### Other required reporting

#### 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

6 July 2018



## Hexion UK Limited

### Income Statement

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Turnover	5	120,230	94,278
Cost of sales		(103,195)	(77,653)
<b>Gross profit</b>		<b>17,035</b>	<b>16,625</b>
Distribution costs		(4,779)	(4,360)
Administrative expenses		(8,001)	(4,804)
<b>Operating profit</b>	6	<b>4,255</b>	<b>7,461</b>
<b>Profit on ordinary activities before interest and taxation</b>		<b>4,255</b>	<b>7,461</b>
Interest receivable and similar income	8	506	557
Interest payable and similar charges	8	(119)	(50)
<b>Net interest income</b>	8	<b>387</b>	<b>507</b>
<b>Profit on ordinary activities before taxation</b>		<b>4,642</b>	<b>7,968</b>
Tax on profit on ordinary activities	9	(716)	(390)
<b>Profit for the financial year</b>		<b>3,926</b>	<b>7,578</b>

### Statement of Comprehensive Income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit for the financial year	3,926	7,578
<b>Total comprehensive income for the financial year</b>	<b>3,926</b>	<b>7,578</b>

# Hexion UK Limited

## Statement of Financial Position

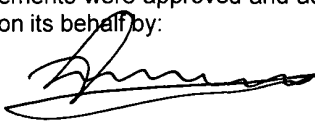
	Note	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Fixed assets</b>			
Intangible assets	10	136	172
Tangible assets	11	13,196	13,912
		<b>13,332</b>	<b>14,084</b>
<b>Current assets</b>			
Inventory	12	4,575	4,377
Debtors	13	28,218	76,424
Cash at bank and in hand		376	1,193
		<b>33,169</b>	<b>81,994</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(20,828)</b>	<b>(15,604)</b>
<b>Net current assets</b>		<b>12,341</b>	<b>66,390</b>
<b>Total assets less current liabilities</b>		<b>25,673</b>	<b>80,474</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(223)</b>	<b>(131)</b>
<b>Provisions for other liabilities</b>	16	<b>(247)</b>	<b>(483)</b>
<b>Net assets</b>		<b>25,203</b>	<b>79,860</b>
<b>Capital and reserves</b>			
Called up share capital	18	2	2
Share premium account	19	25,127	25,127
Retained earnings	19	74	54,731
<b>Total equity</b>		<b>25,203</b>	<b>79,860</b>

The notes on pages 10 to 28 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of directors on 6 July 2018 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 2016	2	25,127	47,153	72,282
Profit for the financial year	-	-	7,578	7,578
Total comprehensive income for the year	-	-	7,578	7,578
<b>At 31 December 2016</b>	<b>2</b>	<b>25,127</b>	<b>54,731</b>	<b>79,860</b>
At 1 January 2017	2	25,127	54,731	79,860
Profit for the financial year	-	-	3,926	3,926
Total comprehensive income for the year	-	-	3,926	3,926
Dividends paid			(58,583)	(58,583)
<b>At 31 December 2017</b>	<b>2</b>	<b>25,127</b>	<b>74</b>	<b>25,203</b>

# 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, Penarth, South 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.

#### (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 on 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 group's 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.

# Hexion UK Limited

## 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'.

# Hexion UK Limited

## 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 in 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.



## **Hexion UK Limited**

### **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.

# Hexion UK Limited

## 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 within 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 debtors 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 a 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 creditors, including trade and other creditors, 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.

## Hexion UK Limited

### 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 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) 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 salability of finished goods and future usage of raw materials. See note 12 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 13 for the net carrying amount of the debtors and associated impairment provision.

#### 5. Turnover

Analysis of turnover by geography:

	2017 £'000	2016 £'000
United Kingdom	60,999	51,290
Rest of Europe	57,317	41,127
Other	1,914	1,861
	<b>120,230</b>	<b>94,278</b>

Analysis of turnover by category:

	2017 £'000	2016 £'000
Sales of goods	120,230	94,278
	<b>120,230</b>	<b>94,278</b>

## Hexion UK Limited

### Notes to the financial statements

#### 6. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £'000	2016 £'000
Wages and salaries	8,785	8,609
Social security costs	934	967
Pension costs (Note 21)	669	551
<b>Total staff costs</b>	<b>10,388</b>	<b>10,127</b>
Reorganisation expenses (Note 16)	563	720
Loss on disposal of fixed assets	115	34
Operating lease rentals:		
- vehicles	53	99
- plant and equipment	143	117
- land and buildings	38	25
Foreign exchange gain	(435)	(3,290)
Audit fees payable to the Company's auditors	33	33
Research and development written off	559	792
Depreciation of owned fixed assets	1,827	1,821
Inventory recognised as an expense	102,910	76,866
Impairment of inventory (included in cost of sales)	13	1

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

Administrative expenses included corporate recharges of £3,548,000 (2016: £2,666,000).

## Hexion UK Limited

### 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	112	99
Sales	9	7
Administration	33	45
	154	151

During the year, 2 directors received emoluments from the Company (2016: 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:	2017 £'000	2016 £'000
Aggregate emoluments	317	396
Company contributions to defined contribution schemes	51	28
Compensation for loss of office	477	-
	845	424

##### Highest paid director

The highest paid directors' emoluments were are follows:	2017 £'000	2016 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	169	249
Company contributions to defined contribution schemes	13	20
Compensation for loss of office	477	-
	659	269

	2017 No.	2016 No.
Post-employment benefits are accruing for the following directors, who are members of defined contribution schemes	2	2

## Hexion UK Limited

### Notes to the financial statements

#### 8. Net interest income

##### Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable on inter-company loans	505	556
Bank interest receivable	1	1
Total interest receivable and similar income	506	557

##### Interest payable and similar charges

	2017 £'000	2016 £'000
Interest payable on inter-company loans	(8)	-
Interest payable on overdrafts and bank loans	(111)	(50)
Total interest payable and similar charges	(119)	(50)

##### Net interest income

	2017 £'000	2016 £'000
Interest receivable and similar income	506	557
Interest payable and similar charges	(119)	(50)
Total net interest income	387	507

## Hexion UK Limited

### Notes to the financial statements

#### 9. Tax on profit on ordinary activities

##### a) Tax expense included in the Income Statement

	2017 £'000	2016 £'000
Current tax		
- UK Corporation tax on profit for the year	353	91
- Adjustment in respect of previous periods	(39)	-
- Foreign tax relief/other relief	(12)	(61)
- Foreign tax suffered	69	59
<b>Total current tax</b>	<b>371</b>	<b>89</b>
Deferred tax:		
- Origination and reversal of timing differences	384	460
- Adjustment in respect of previous periods	6	(177)
- Effect of changes in tax rates	(45)	18
<b>Total deferred tax (Note 20)</b>	<b>345</b>	<b>301</b>
<b>Tax on profit on ordinary activities</b>	<b>716</b>	<b>390</b>

##### b) Reconciliation of tax charge

Tax assessed for the period is lower (2016: lower) 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 £'000	2016 £'000
Profit on ordinary activities before taxation	4,642	7,968
Profit on ordinary activities before taxation multiplied by the standard rate in the UK of 19.25% (2016: 20%)	893	1,593
Effects of:		
- Expenses not deductible for tax purposes	70	76
- Income not taxable	(1)	-
- Group relief not paid for	(225)	(1,613)
- Transfer pricing adjustments	-	493
- Impact of double tax relief	57	-
- Adjustment in respect of previous periods	(33)	(177)
- Tax rate changes	(45)	18
<b>Tax charge for the year</b>	<b>716</b>	<b>390</b>

The UK standard rate of corporation tax is 19.25% for the year end 31 December 2017 (2016: 20%). A reduction in the rate of corporation tax from 20% to 19% became effective from April 2017. A further reduction to 17% from April 2020 was fully enacted on 15 September 2016.

## Hexion UK Limited

### Notes to the financial statements

#### 9. Tax on profit on ordinary activities (continued)

##### Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 7 September 2016). These include reduction to the main rate to reduce the rate 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.

#### 10. Intangible assets

	<b>Software £'000</b>
<b>At 1 January 2017</b>	
Cost	642
Accumulated amortization	(470)
<b>Net book amount</b>	<b>172</b>
<b>Year ended 31 December 2017</b>	
Opening net book amount	172
Addition	-
Disposal	(8)
Amortization charge	(28)
<b>Closing net book amount</b>	<b>136</b>
<b>At 31 December 2017</b>	
Cost	634
Accumulated amortization	(498)
<b>Net book amount</b>	<b>136</b>



# Hexion UK Limited

## Notes to the financial statements

### 11. Tangible assets

	Freehold land and buildings £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
<b>At 1 January 2017</b>				
Cost	5,095	68,352	1,792	75,239
Accumulated depreciation and impairment	(2,599)	(58,728)	-	(61,327)
<b>Net book value</b>	<b>2,496</b>	<b>9,624</b>	<b>1,792</b>	<b>13,912</b>
<b>Year ended 31 December 2017</b>				
Opening net book value	2,496	9,624	1,792	13,912
Additions	39	967	220	1,226
Transfers	62	1,162	(1,223)	-
Disposal	(16)	(893)	(39)	(948)
Depreciation disposal	4	829	-	833
Depreciation charge	(185)	(1,642)	-	(1,827)
<b>Closing net book value</b>	<b>2,400</b>	<b>10,047</b>	<b>749</b>	<b>13,196</b>
<b>At 31 December 2017</b>				
Cost	5,180	69,588	749	75,517
Accumulated depreciation and impairment	(2,780)	(59,541)	-	(62,321)
<b>Closing net book value</b>	<b>2,400</b>	<b>10,047</b>	<b>749</b>	<b>13,196</b>

## Hexion UK Limited

### Notes to the financial statements

#### 12. Inventory

	2017 £'000	2016 £'000
Raw materials and consumables	2,668	2,741
Work-in-progress	996	859
Finished goods and goods for resale	911	777
	<b>4,575</b>	<b>4,377</b>

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 £74,000 (2016: £61,000). Inventory is pledged as security against the group's bank loan.

#### 13. Debtors

	2017 £'000	2016 £'000
Trade debtors	20,698	14,558
Amounts owed by group undertakings		
- parent company	-	34,863
- fellow subsidiary companies	5,540	23,905
Deferred tax asset (Note 20)	746	1,091
Corporation tax recoverable	-	214
Other debtors	605	842
Prepayments and accrued income	629	951
	<b>28,218</b>	<b>76,424</b>

Trade debtors are stated after provision for impairment of £70,000 (2016: £139,000).

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

Amounts owed by fellow subsidiaries comprise trade receivables, £2,247,000 (2016: £971,000); loans receivable, £3,293,000 (2016: £22,887,000); and interest receivable £314 (2016: £47,000). The loans receivable are unsecured, bearing interest at an average rate of 0.06% (2016: 5.4%) and are payable on demand.

#### 14. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	11,487	7,770
Amounts owed to group undertakings		
- fellow subsidiaries	3,355	3,738
Other creditors including taxation and social security	300	140
Other creditors	3,820	2,755
Accruals and deferred income	1,808	1,201
Corporation tax	58	-
	<b>20,828</b>	<b>15,604</b>

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

#### 15. Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Amounts owed to group undertakings		
- parent company	-	131
Accruals and deferred income	223	-
	223	131

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

#### 16. Provisions for other liabilities

	Restructuring provision £'000	Total £'000
Balance brought forward at 1 January 2017	483	483
Income Statement charge	563	563
Utilisation	(799)	(799)
Balance carried forward	247	247

##### Restructuring

The provision for restructuring comprises severance payments as part of the organizational changes within Hexion's global operations.

## Hexion UK Limited

### Notes to the financial statements

#### 17. Financial instruments

The Company has the following financial instruments :

	2017 £'000	2016 £'000
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors	20,698	14,558
- Amounts owed by group undertakings	5,540	58,768
- Other debtors	605	842
	26,843	74,168
Financial liabilities measured at amortised cost		
- Trade creditors	11,487	7,770
- Amounts owed to group undertakings	3,355	3,869
- Other creditors	3,820	2,755
	18,662	14,394

The Company has no derivative financial instruments (2016: £nil). Tangible fixed assets, inventory and trade debtors are pledged as security against the group's bank loan.

#### 18. Called up share capital

	2017 £'000	2016 £'000
<b>Called up, allotted and fully paid</b>		
1,995 (2016: 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.

#### 19. 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.

##### Dividends

The company has approved and made dividends £58,584,000 for the year ended 31 December 2017.

## Hexion UK Limited

### Notes to the financial statements

#### 20. Deferred tax asset

	2017 £'000	2016 £'000
Fixed assets timing differences	744	1,067
Short term timing differences	2	24
<b>Deferred tax</b>	<b>746</b>	<b>1,091</b>

Provision for deferred taxation	Deferred tax asset £'000
At 1 January 2017	1,091
Charge to Income Statement	(345)
<b>At 31 December 2017</b>	<b>746</b>

There are no unused tax losses or unused tax credits.

#### 21. 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 £669,000 (2016: £551,000). There was an amount of £nil outstanding at the year-end (2016: £nil).

#### 22. Capital and other commitments

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

	2017 £'000	2016 £'000
Within one year	585	501
Within two to five years	2,190	80
After five years	566	77
	<b>3,341</b>	<b>658</b>

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

The Company had no other off balance sheet commitments.

#### 23. 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**

#### **24. 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 £367,861 (2016: £541,692).

#### **25. Controlling parties**

The immediate parent undertaking is Borden International Holdings Limited due to its 51% equity holding 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. During the year Hexion Canada Inc (formerly Borden Chemical Canada Inc.) transferred its 49% equity holding of the Company to Hexion UK Holding Limited, via a share transfer agreement. Hexion UK Holding Limited has 100% equity holding of Borden International Holdings Limited.