

Company Registration No. 07204046

Dow Chemical Services UK Limited

Annual Report and Financial Statements

31 December 2016

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Dow Chemical Services UK Limited

Annual report and financial statements 2016 Contents

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Dow Chemical Services UK Limited

Annual report and financial statements 2016

Officers and professional advisers

Directors

L Antuna
N Ephgrave
J Good
J E Roberts
L Poli
M Emery
G M de Lahidalga

Company Secretary

C Jenkins

Registered Office

Diamond House
Lotus Park
Kingsbury Crescent
Staines
Middlesex
TW18 3AG

Bankers

Deutsche Bank AG London

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

Dow Chemical Services UK Limited

Strategic report

Performance review

The Company acts as a provider of people-related services to other Dow group companies under a services agreement for a fee based on the costs incurred together with a mark up.

The Company operates certain pension arrangements. Under its pension funding arrangements, any movement in the pension plan liability deficit recognised by the Company under FRS102, including any actuarial gains and losses recognised in the statement of comprehensive income, are passed on to the participating companies and presented as other operating income or expense as the case may be. See note 1 to the financial statements for further details.

The Company has recognised restructuring costs of £205,000 (2015: £1,553,000) relating to the impact of the restructuring announcements made by The Dow Chemical Company in 2013 and 2014 which have seen the closure of Jarrow, Seal Sands and Grangemouth sites and the announcement made in 2015 regarding the relocation of the administrative offices in Hitchin and Staines to Cambridge. Whilst the relocation of the Staines office did not ultimately proceed, the Company honoured agreements with employees who applied for the Company's restructuring programme.

The results for the year ended 31 December 2016 are set out in the profit and loss account on page 8. The profit for the year on ordinary activities before taxation was £118,024,000 (2015: loss £11,401,000) which includes an amount recognised in other operating income of £117,108,000 (2015: expense £13,445,000) relating to the passing back to participating companies of actuarial losses recognised in the statement of comprehensive income (SOCi). The underlying trading profit before tax after excluding this item is £916,000 (2015: £2,044,000).

The financial position of the Company at the end of the year is shown on page 10. Net assets at the end of the year decreased to £14,399,000 (2015: £16,692,000) as the actuarial loss recorded in the statement of comprehensive income is larger than the profit for the year.

Going concern and future developments

The Directors have satisfied themselves that, after reviewing the Company's current and forecast financial performance and position, the Company will have adequate resources to continue operation for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements. See note 1 to the financial statements for further details.

Although the directors do not expect changes in the nature of the activity of the Company, the directors expect a decrease in the general level of activity compared to prior year due to the completion of the announced restructuring activities.

Principal risks and uncertainties

The Company provides people-related services under arrangements with participating Dow group companies operating in the UK. The principal risks affecting the Company arise from the risks faced by those companies, which in turn are directly linked to business risks faced by the Dow group as a whole, due to the global nature of its operations. Changes in the Dow Group's product and manufacturing strategy may therefore affect the Company's operations. The business risks faced by the Dow Group are disclosed in its Securities and Exchange Commission filings which are available at www.dow.com.

Key performance indicators (KPIs)

The Dow Chemical Group manages its operations on the basis of global business units across legal entities globally. As the Company's activities are directly related to the provision of people related services to other Dow Chemical group companies, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business.

Approved by the Board of Directors and signed on behalf of the Board



J. Good
Director

05 April 2017

Dow Chemical Services UK Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016. The Company has chosen, in accordance with section 414c (11) of the Companies Act 2006, to include information in respect of the future developments affecting the Company in the Strategic Report which otherwise would be required to be disclosed in the Directors' Report. The Company meets the definition of a qualifying entity under FRS 102 and has taken advantage of the disclosure exemptions available to it under Section 1 paragraph 12c of FRS 102 as the disclosures are included in the financial statements of The Dow Chemical Company which are readily available as set out in note 19.

Financial risk management

The Company uses well developed and extensive practices to manage financial risks, including those relating to cash flow risk, currencies, liquidity and credit. Foreign currency denominated receivables and payables are factored to another group company and covered by foreign currency hedges entered into with the same group company. The same company provides, where needed, adequate short-term liquidity. The company does not directly enter into any third party derivative financial instruments.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: nil).

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the 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 disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through formal and informal meetings, Company-wide webcasts and other communications made available on the Company's intranet. The Company encourages each individual employee to participate in the parent company's share purchase plan. The purpose of the scheme is to give employees the possibility of purchasing shares on favourable terms.

Directors

The details of the Company's directors who have served throughout the year, and subsequent to the year-end, are given on page 1.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

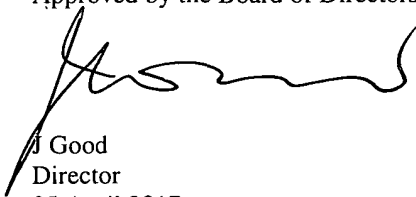
Dow Chemical Services UK Limited

Directors' report (continued)

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed as auditors for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



J Good
Director
05 April 2017

Dow Chemical Services UK Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 estimates that are reasonable and prudent;
- * state whether applicable UK Accounting Standards have been followed; 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 to 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Dow Chemical Services UK Limited

Independent auditor's report to the members of Dow Chemical Services UK Limited

We have audited the financial statements of Dow Chemical Services UK Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

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. 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Dow Chemical Services UK Limited

Independent auditor's report to the members of Dow Chemical Services UK Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Hadleigh Shekle FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
05 April 2017

Dow Chemical Services UK Limited

Profit and loss account Year ended 31 December 2016

	Note	2016 £'000	2015 (restated – see note 1) £'000
Turnover	3	40,446	46,859
Cost of sales		(38,184)	(42,671)
Gross profit		2,262	4,188
Other operating income/(expense)		117,108	(13,445)
Operating profit		119,370	(9,257)
Net interest payable	4	(1,346)	(2,144)
Profit/(loss) on ordinary activities before taxation	5	118,024	(11,401)
Tax (charge)/credit on profit/(loss) from ordinary activities	7	(22,848)	2,478
Profit/(loss) for the financial year		95,176	(8,923)

All amounts relate to continuing operations.

Dow Chemical Services UK Limited

Statement of comprehensive income Year ended 31 December 2016

		2016	2015
		(restated –	
		see note 1)	
	Note	£'000	£'000
Profit/(loss) for the financial year		95,176	(8,923)
Actuarial (loss)/gain relating to the pension scheme	15	(117,108)	13,112
Deferred taxation on pension movements		19,915	(2,360)
Tax rate change impact on deferred tax		(556)	(1,637)
Total recognised (losses)/gains relating to the year		<u>(2,573)</u>	<u>192</u>

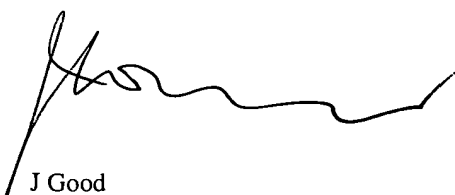
Dow Chemical Services UK Limited

Balance sheet 31 December 2016

	Note	2016 £'000	2015 £'000
Current assets			
Debtors due within one year	8	155,105	82,573
Debtors due after one year	8	18,991	9,999
		<u>174,096</u>	<u>92,572</u>
Creditors: amounts falling due within one year	9	(15,756)	(15,337)
Net current assets		<u>158,340</u>	<u>77,235</u>
Provisions for liabilities	10	(1,197)	(4,993)
Pension liability	15	(142,744)	(55,550)
		<u>14,399</u>	<u>16,692</u>
Net assets		<u>14,399</u>	<u>16,692</u>
Capital and reserves			
Share capital	11	1,000	1,000
Other reserves	12	2,100	1,820
Profit and loss account	12	11,299	13,872
		<u>14,399</u>	<u>16,692</u>
Shareholder's funds	13	<u>14,399</u>	<u>16,692</u>

The financial statements of Dow Chemical Services UK Limited, registered number 07204046, were approved by the Board of Directors and authorised for issue on 05 April 2017.

Signed on behalf of the Board of Directors



J Good
Director
05 April 2017

Dow Chemical Services UK Limited

Statement of changes in equity For year ended 31 December 2016

	Called-up share capital £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 31 December 2014	1,000	1,446	13,680	16,126
Loss for the financial year (restated)			(8,923)	(8,923)
Actuarial gain relating to pension scheme			13,112	13,112
Deferred tax on pension movements	-	-	(2,360)	(2,360)
Tax rate change impact on deferred tax (restated)	-	-	(1,637)	(1,637)
Total comprehensive income	-	-	192	192
Cash payments to parent company for share-based payment	-	(819)	-	(819)
Credit to equity for equity settled share-based payment	-	1,193	-	1,193
At 31 December 2015	1,000	1,820	13,872	16,692
Profit for the financial year			95,176	95,176
Actuarial loss relating to pension scheme			(117,108)	(117,108)
Deferred tax on pension movements	-	-	19,915	19,915
Tax rate change impact on deferred tax	-	-	(556)	(556)
Total comprehensive income	-	-	(2,573)	(2,573)
Cash payments to parent company for share-based payment	-	(1,076)	-	(1,076)
Credit to equity for equity settled share-based payment	-	1,356	-	1,356
At 31 December 2016	1,000	2,100	11,299	14,399

Dow Chemical Services UK Limited

Notes to the financial statements Year ended 31 December 2016

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies which have been applied consistently in the current and prior year are described below:

General information and basis of accounting

The financial statements are prepared under the historical cost convention and on the going concern basis.

The Company is incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the registered office is given on page 1. The nature and the company's operations and its principal activities are set out in the strategic report on page 2.

The financial statements are prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it under Section 1 paragraph 12. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, remuneration of key management personnel, and disclosure of intra-group related party transactions. The parent of the group in whose consolidated financial statements the Company's financial statements are included is The Dow Chemical Company and its financial statements are readily available as set out in note 19.

Going concern

The Company is part of The Dow Chemical Company ("TDCC") group, made a profit during the year and it has net assets and net current assets at the year end. After considering all reasonably possible changes in trading performance, other longer-term plans of the related UK affiliates and the access to short term liquidity from another group company, the Directors are satisfied that at the time of approving the financial statements, it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Prior year restatement

In 2015, the impact of the change in the substantively enacted rate of corporation tax from 20% to 18% on the opening deferred tax was reflected in the profit and loss account in full, amounting to a charge of £1,771,000. Of this amount, £1,637,000 related to the impact on the deferred tax asset relating to the Company's defined benefit pension scheme. The change in deferred tax balances arising from changes in the tax rate should be reflected in the same component of total comprehensive income as the transaction that resulted in the deferred tax asset, and consequently this amount should have been presented in other comprehensive income, rather than profit and loss. Comparative balances have been restated to reflect this change in classification, resulting in a reduction in the loss for 2015 from £10,560,000 as previously reported to £8,923,000 and a reduction in other comprehensive income by the same amount. There is no impact on net assets at 31 December 2016 as a result of this restatement.

Turnover

Turnover comprises the value of services billed to other group companies including a mark-up, but excluding VAT. Turnover is recognised when the services are delivered and includes amounts related to share-based compensation, calculated in accordance with Section 26 of FRS 102 "Share-based Payments", and pension costs to the extent that these are recognised in profit and loss as required by Section 28 of FRS 102 "Employee Benefits".

Other operating income/expense

The movement in pension deficit arising from actuarial gains and losses is credited / recharged to group companies under a pension funding agreement and is presented as other operating expense or income.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

1. Accounting policies (continued)

Foreign currency transactions

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are dealt with in the profit and loss account.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial assets and liabilities

Financial assets and liabilities are initially recorded at transaction price, including transaction costs, unless the arrangement constitutes a financing transaction. Except for derivative financial instruments, the Company's financial assets and liabilities are payable or receivable within one year and are subsequently measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of any impairment.

Financial assets are de-recognised only where the contractual rights to the cash flows from the asset expire or are settled; or if the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk in relation to cash flow risk. The Company does not hold derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

The best evidence of fair value is a quoted price for an identical instrument in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical instrument provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical instrument on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

The Company meets the definition of a qualifying entity under FRS 102 and has taken advantage of the disclosure exemptions available to it under Section 1 paragraph 12c of FRS 102 as the disclosures are included in the financial statements of The Dow Chemical Company which are readily available as set out in note 19.

Pensions

The company operates two pension plans, The Dow Services UK Pension Plan and The Rohm and Haas Retirement Plan – UK.

The Dow Services UK Pension Plan is a hybrid plan which is part defined benefit and part defined contribution. The assets of the Dow Services UK Pension Plan are held separately from those of the Company in an independently administered fund.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

1. Accounting policies (continued)

Pensions (continued)

The Rohm and Haas Retirement Plan is a defined benefit plan. The assets of the Rohm and Haas Retirement Plan are held separately from those of the Company in an independently administered fund.

In addition, the Company has unfunded defined benefit arrangements. The Company has adopted the requirements of Section 28 of FRS 102 with respect to these unfunded defined benefit arrangements. These benefit arrangements were introduced to maintain an overall pension benefit to employees which is competitive with that provided by comparable employers. The Company will keep the provisions of these benefits under review and they will be withdrawn when the Company considers they are no longer needed. The pension liability assumes the benefit will be provided, which is also dependent on the employees retiring with company consent.

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Provisions

Provisions are recognised when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the entity will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

1. Accounting policies (continued)

Share-based payments

The Company has applied the requirements of section 26 of FRS 102 Share-based Payments.

TDCC, being the parent of the group, issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Company uses a lattice-based option valuation model to estimate the fair value of stock options and subscriptions to purchase shares under the Employee Stock Purchase Plan (ESPP).

With regard to the ESPP, TDCC also provides employees with the ability to purchase the group's ordinary shares at an amount no less than 85% of the market price. The company records an expense, based on its estimate of the 15% discount related to shares expected to vest on a straight-line basis over the vesting period.

Where TDCC grants rights or share options over its shares to employees of the Company, the Company records the credit directly to the share-based payment reserve in equity; where the Company makes cash payments to TDCC in respect of any rights or share options granted, such cash contributions are accounted for as a reduction in the share-based payment reserve in equity.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are those involving management estimates, and are set out below.

Deferred tax

The recognition of deferred tax assets requires judgement as to the probability of taxable profits being available in the future and the quantum of taxable profits that are forecast to arise. This requires the directors to exercise judgement in forecasting future results, which are heavily impacted by the quantum of other operating income / expense recognised and which it itself subject to the assumption setting used for pension plans as detailed below. Changing the assumptions selected by the directors could significantly affect the Company's forecast results and the amount of deferred taxation included in the Company's results.

Pension plans

The Company sponsors two defined benefit pension plans. For a description of the related accounting policies, refer to Note 1 of the financial statements. Changes in significant assumptions could materially affect the amounts, particularly the rate used to discount the projected benefit obligation. Note 15 to the financial statements describes the principal discount rate, salary increase, inflation, mortality and pension payment increase assumptions that have been used to determine the pension and post-retirement charges. The calculation of any charge relating to pensions is dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on advice of the Company's actuaries, on prior experience and market conditions.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Share-based payments

Application of section 26 of FRS 102 Share-based Payments requires the Company to make judgements regarding certain assumptions which are required in determining the fair value of equity-settled share-based payments or which affect the expected number of options or stock awards to be issued. These assumptions affect the expense recorded in the profit and loss account. The judgements that are material to the financial statements include the following:

- expected forfeitures; and
- the likelihood of any relevant performance conditions being met.

Changes in some of these assumptions would have a material impact on the financial statements as changes in assumptions regarding the number of options or awards that are expected to vest results in a change in the amount of charge to be recognised. The assumptions applied by the Company are disclosed in Note 14.

3. Turnover

All turnover originated in the United Kingdom and relates solely to the provision of people-related services to other Dow Group Companies. Turnover analysed by geographical destination is as follows:

	2016 £'000	2015 £'000
United Kingdom	40,446	46,859

An analysis of the Company's revenue is as follows:

	2016 £'000	2015 £'000
Rendering of services	40,446	46,859
Interest income	73	526
Revenue	40,519	47,385

4. Net interest payable

	2016 £'000	2015 £'000
Receivable on:		
Group loans	73	526
Payable on:		
Group loans	(3)	(2)
Other finance charges:		
Net pension interest expense (note 15)	(1,416)	(2,668)
	(1,419)	(2,670)
Net interest payable	(1,346)	(2,144)

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

5. Profit or loss on ordinary activities before taxation

	2016 £'000	2015 £'000
Profit or loss on ordinary activities before taxation is stated after charging/(crediting):		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	70	42
Lease expenses included in cost of sales	319	59
Share-based payment charge	1,356	1,193
Foreign exchange loss/(gain)	21	(49)
	<u> </u>	<u> </u>

The Company's auditors received remuneration of £36,500 for the pension scheme audit.

6. Directors' remuneration and staff costs

Directors' remuneration

	2016 £'000	2015 £'000
Directors emoluments in respect of services to the Company:		
Management salaries	400	388
Pension contributions	48	44
Benefits	2	2
	<u> </u>	<u> </u>
	450	434
	<u> </u>	<u> </u>

	2016 No.	2015 No.
The number of directors who:		
Are members of a defined benefit pension scheme	1	1
Are members of a hybrid pension scheme	2	2
Exercised options or other shares in the Dow Chemical Company	1	-
Had awards receivable in the form of shares under a long-term incentive package	2	1
	<u> </u>	<u> </u>

The emoluments for the year for the highest paid director in respect of services provided to the Company were £158,765 (2015: £148,253) and pension contributions were £14,905 (2015: £13,938). The highest paid director is a member of the Company's defined benefit scheme and had accrued entitlements of £21,630 per annum (2015: £19,700) under the scheme at the end of the year. There is no accrued lump sum. The highest paid director received 980 shares in respect of qualifying services under a long term incentive scheme.

Four (2015: four) of the current directors received remuneration from other group companies in respect of their services to the Dow group as a whole and received no emoluments from the company. It is not practicable to allocate this compensation between group companies.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

6. Directors' remuneration and staff costs (continued)

Employee costs, including executive directors:

	2016 £'000	2015 £'000
Wages and salaries	23,300	24,522
Social security costs	3,097	2,919
Other pension costs	5,053	6,120
Share-based payment charge	1,356	1,193
	<u>32,806</u>	<u>34,754</u>

Other pension costs include only those items included within operating costs. Items reported elsewhere have been excluded. In addition, severance costs of £205,000 (2015: £1,553,000) were recognised during the year.

The monthly average number of employees employed by the company during the year ended 31 December 2016 was as follows:

	2016 No.	2015 No.
Administration	13	16
Operations	286	308
Sales and marketing	86	91
	<u>385</u>	<u>415</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

7. Taxation

	2016 £'000	2015 (restated) £'000
The credit for taxation comprises:		
UK corporation tax at 20.00% (2015: 20.25%)	16,989	-
Adjustments in respect of prior years	(4,316)	(7,196)
Total current tax charge/(credit)	12,673	(7,196)
Deferred tax		
Timing differences, originating and reversal	5,690	(2,056)
Effect of tax rate change on opening balance	68	134
Adjustments in respect of prior years	4,417	6,640
Total deferred tax charge	10,175	4,718
Total tax charge/(credit) on profit/(loss) on ordinary activities	22,848	(2,478)

The standard rate of tax applied to reported profit or loss on ordinary activities is 20.00% (2015: 20.25%). The applicable tax rate has changed following the substantive enactment of the Finance Act 2013. Deferred tax has been provided at 17% (2015: 18%) following the substantive amendments of the Finance Act 2016. During the year beginning 1 January 2017, the net reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £5,274,000 (2016: £5,644,000). This is due to other short-term timing differences which are expected to reverse in the next year.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

7. Taxation (continued)

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%) as a result of the following:

	2016 £'000	2015 (restated) £'000
Profit/(loss) on ordinary activities before tax	118,024	(11,401)
Tax at thereon 20.00% (2015: 20.25%)	23,604	(2,309)
Effects of:		
Expenses not deductible for tax purposes	71	(5)
Adjustments to tax charge in respect of previous periods	(4,316)	(7,196)
Adjustments to tax charges in respect of previous period – deferred tax	4,417	6,640
Amount charged to statement of comprehensive income	(3,506)	295
Adjustments to deferred tax rate	2,578	97
Total tax charge/(credit) for the year	22,848	(2,478)

8. Debtors:

- Amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by group undertakings	148,672	76,740
Deferred tax	5,835	5,644
Other debtors	588	174
Prepayments and accrued income	10	15
	155,105	82,573

The deferred tax asset arises in respect of the following:

	2016 £'000	2015 £'000
Pension timing differences	24,266	9,999
Short-term timing differences	561	1,226
Losses and other deductions	-	4,418
	24,827	15,643

There is no expiry date on timing differences, unused tax losses or tax credits.

- Amounts falling due after one year

	2016 £'000	2015 £'000
Deferred tax asset related to defined benefit pensions	18,991	9,999

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

8. Debtors (continued)

The movement in deferred tax asset is set out below:

	2016 £'000
At 1 January 2016	15,643
Charged to the profit and loss account	(10,175)
Charged to the statement of comprehensive income	19,359
	<hr/>
At 31 December 2016	<u>24,827</u>

In the current year the company reported substantial profits due to the pass back of actuarial losses arising on the Company's defined benefit pension schemes to the participating companies. However, there is a corresponding increase in the reported pension creditor and associated deferred tax asset. Nevertheless, as reported in the directors' report, the Company generated underlying trading profit and the directors expect the Company to do so for the foreseeable future. Under the terms of the agreement with fellow group companies the Company is able to recover all costs from the other UK operating entities together with a mark-up, so that the directors expect that the Company will be paid full value should any surplus tax losses arise which will be surrendered as group relief to participating companies

9. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	242	446
Amounts owed to group undertakings	1,741	9,179
Other creditors including taxation and social security	10,748	1,554
Accruals	3,025	4,158
	<hr/>	<hr/>
	<u>15,756</u>	<u>15,337</u>

10. Provision for liabilities

Movements in the year:

	Restructuring £'000	Long-term sickness £'000	Other £'000	Total £'000
At 1 January 2016	4,394	122	477	4,993
Charged to profit and loss account	205	-	164	369
Utilised	(4,148)	(17)	-	(4,165)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	<u>451</u>	<u>105</u>	<u>641</u>	<u>1,197</u>

The long-term sick provision relates to a shortfall in permanent health insurance. The provision is expected to be utilised over 7 years.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

10. Provisions for liabilities (continued)

Restructuring provisions relate to the cost of workforce reductions and are expected to be utilised within 12 months.

Other provisions relate to National Insurance Contributions (NIC) which will become payable on exercise of share options.

11. Called-up share capital

	2016 £'000	2015 £'000
Allotted, issued and fully paid at nominal value:		
1 million ordinary shares at £1.00 each	1,000	1,000

Called-up share capital represents the nominal value of shares that have been issued. The Company has one class of ordinary shares which carry no right to fixed income.

12. Reserves

	Other reserve £'000	Profit and loss account £'000
At 1 January 2016	1,820	13,872
Credit to equity for share-based payments	1,356	-
Cash payments to parent company for share-based payments	(1,076)	-
Profit for the year	-	95,176
Total other losses recognised in the year	-	(97,749)
At 31 December 2016	2,100	11,299

The other reserve relates to share-based payments. Where TDCC grants rights or share options over its shares to employees of the Company, the Company records the credit directly to the share-based payment reserve in equity; where the Company makes cash payments to TDCC in respect of any rights or share options granted, such cash contributions are accounted for as a reduction in the share-based payment reserve in equity.

The profit and loss account reserve includes all current and prior period retained profit and losses.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

13. Reconciliation of movement in shareholder's funds

	2016 £'000	2015 (restated) £'000
Opening balance	16,692	16,126
Profit/(loss) for the year	95,176	(8,923)
Other (loss)/gains recognised in the year (net)	(97,749)	9,115
Net credit to equity for share-based payments	280	374
Closing shareholder's funds	<u>14,399</u>	<u>16,692</u>

14. Share-based payments

The total share-based payment recognised in the profit and loss for the year was £1,356,000.

Equity-settled share option scheme

TDCC has a share option scheme for certain employees of the company. Options are exercisable at a price equal to the average quoted market price of TDCC's shares on the date of grant. Options vest from one to three years, and have a maximum term of 10 years. Options are forfeited if the employee leaves the company before the options vest.

Details of movements of the share options during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	133,959	20.37	159,524	21.53
Granted during the year	5,680	32.01	-	-
Transferred during the year	23,377	22.15	28,173	20.03
Exercised during the year	(40,968)	19.06	(40,948)	22.14
Forfeited during the year	(2,280)	25.29	(12,790)	28.41
Outstanding at the end of the year	<u>119,768</u>	<u>22.67</u>	<u>133,959</u>	<u>20.37</u>
Exercisable at the end of the year	<u>108,139</u>	<u>21.70</u>	<u>106,638</u>	<u>20.46</u>

In 2016 options were granted on 12 February. The aggregate of the estimated fair values of the share options granted was £43,270 (2015 Nil). The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 5.68 years (2015: 6.48 years), with an exercise price ranging between £6.69 and £32.83 (2015: £6.69 to £25.29).

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

14. Share-based payments (continued)

Deferred and restricted stocks

TDCC grants deferred stocks to certain employees. The grants vest over a designated period of time, generally two to five years.

Details of movements of deferred stock during the year are as follows:

	2016		2015	
	Number of	Grant date	Number of	Grant date
	stocks	fair value	stocks	fair value
		(£)		(£)
Outstanding at beginning of year	52,287	26.01	52,067	23.05
Granted during the year	13,566	32.07	13,540	32.77
Transferred during the year	(226)	31.22	5,780	22.43
Vested during the year	(25,139)	20.34	(17,778)	21.60
Forfeited during the year	(1,160)	36.53	(1,322)	22.35
Outstanding at the end of the year	39,328	31.04	52,287	26.01

In 2016, stocks were granted on 12 February, 16 May and 20 June. The aggregate of the estimated fair values of the deferred stock granted was £435,049. The deferred stock outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.12 years (2015: 2.14 years), with a grant date fair value ranging between £32.01 and £36.35 (2015: £28.55 and £33.08). In 2015, stocks were granted on 13 February, 18 May, and 21 September. The aggregate of the estimated fair values of the deferred stock granted on that date was £433,755.

Performance deferred stock awards

TDCC grants performance deferred stock awards that vest when TDCC attains specified performance targets over a pre-determined period, generally two to five years. Compensation expense related to performance deferred stock awards is recognised over the lesser of the service or performance period.

Details of movements of deferred stock during the period are as follows:

	2016		2015	
	Number of	Grant date	Number of	Grant date
	stocks	fair value	stocks	fair value
		(£)		(£)
Outstanding at beginning of year	22,620	30.50	10,330	28.36
Granted during the year	11,250	32.01	10,830	32.83
Transferred during the year	(160)	31.00	1,460	28.32
Vested during the year	-	-	-	-
Forfeited during the period	-	-	-	-
Outstanding at the end of the year	33,710	31.00	22,620	30.50

In 2016 deferred stock awards were granted on 12 February and the aggregate of the estimated fair values was £360,104. The performance deferred stock awards outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.16 years (2015: 2.14 years) with a grant date fair value of £32.01 (2014: £32.83). In 2015, stocks were granted on 13 February. The aggregate of the estimated fair values of the performance stock granted on that date was £355,582.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

14. Share-based payments (continued)

Other share-based payment plans

The Employee Share Purchase Plans are open to almost all employees and provide for a purchase price no less than 85 percent of market price. The shares can be purchased during a 10 month period each year. The company issued 9,876 ordinary shares to the employees of the company in 2016, at weighted average share prices of £41.51.

15. Pension plan

The Company operates two pension plans, The Dow Services UK Pension Plan and The Rohm and Haas Retirement Plan – UK.

In addition, the Company has unfunded retirement benefit arrangements.

Defined benefits

15a. Dow Services UK Pension Plan

The Dow Services UK Pension Plan is a single employer plan that provides final salary defined benefits. The Plan is funded on the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Plan's technical provisions. Deficit contributions are agreed by the Trustees and Company for each comprehensive actuarial valuation for funding purposes.

Under the current Schedule of Contributions, which covers the period to 28 February 2024, the Company has agreed to make a variable annual contribution to the pension scheme based on the Plans assessed funding level at the previous 31 December subject to a minimum of £5 million and a maximum of £30 million each calendar year. If the funding level of the Plan is above 100% at any 31 December date, the contribution payments will cease.

The most recent comprehensive actuarial valuation was carried out by the Trustee of the Plan as at 1 December 2013 for funding purposes. The Company has employed an independent actuary to appropriately update that actuarial valuation allowing for differences between the actuarial assumptions used by the Plan for funding purposes and those adopted by the Company to measure the defined benefit obligation, as well as adjusting for benefits paid from the Plan and differences between assumed and actual pension increases between 1 December 2013 and 31 December 2016.

The major assumptions used were:

	2016 %	2015 %
Expected price inflation	3.45	3.25
Expected rate of increase in pay	3.45	4.25
Expected rate of increase of pensions in payment	3.15	3.00
Expected rate of increase for deferred pensioners	2.45	2.25
Discount rate	2.50	3.75

The most significant demographic assumption is the assumption for post-retirement mortality. Mortality is assumed to follow the SAPS S2 (Self-Administered Pension Scheme) pensioner, normal retirements, amounts table projected to 2013 with medium cohort improvement rates subject to a long-term improvement rate of 1.50% per annum and multiplied by 0.9 for males and by 1.1 for females.

Allowance for future improvements in longevity is in line with the CMI improvement rates, subject to a long term improvement rate of 1.25% per annum. The expected lifetime of a member who is age 65 and the expected lifetime (from age 65) of a member who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

Age	Males	Females
65	23.8	24.3
65 in 15 years	25.2	25.7

15a. Dow Services UK Pension Plan (continued)

The assets in the scheme and the expected rates of return were:

	Dow Services UK Pension Plan 2016		2015	
	Allocation percentage	£'000	Allocation percentage	£'000
Equities	25.97%	207,968	23.35%	161,981
Pooled Investment Vehicles	57.94%	463,985	58.34%	404,710
Hedge Funds/Reinsurance	4.63%	37,077	5.99%	41,553
Cash and Derivatives	1.75%	14,014	0.57%	3,954
Property	4.86%	38,919	6.26%	43,426
Annuity policy	4.85%	38,840	5.49%	38,086
Total fair value of assets		800,803		693,710
Present value of scheme liabilities		(935,031)		(740,900)
Deficit in the scheme		(134,228)		(47,190)

The actual return on plan assets was £104,675,000 (2015 - £14,633,000).

Movement in the present value of defined benefit obligations was as follows:

	2016 £'000	2015 £'000
Plan liabilities at 1 January	740,900	756,649
Employer service cost	4,760	5,104
Interest cost	27,065	27,790
Employee contributions	337	342
Transfers into scheme	5,559	4,614
Augmentations:		
- guarantee shortfalls/matrix payments	50	371
Actuarial loss/(gain)	195,869	(22,439)
Benefits paid from plan assets	(37,426)	(30,247)
Administrative expenses	(899)	(937)
Curtailments	(1,184)	(347)
Plan liabilities at 31 December	935,031	740,900

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15a. Dow Services UK Pension Plan (continued)

Movement in the fair value of scheme assets was as follows:

	2016 £'000	2015 £'000
Fair value of assets at 1 January	693,710	684,882
Interest income	25,954	25,481
Actuarial gain/(loss)	78,721	(10,848)
Employer contributions including expenses	34,797	20,052
Employee contributions	337	342
Transfers into scheme	5,559	4,614
Augmentations:		
- guarantee shortfalls/matrix payments	50	371
Benefits paid	(37,426)	(30,247)
Administrative expenses paid	(899)	(937)
Fair value of assets at 31 December	<u>800,803</u>	<u>693,710</u>

Total costs recognised in respect of the Dow Services UK Pension Plan:

	2016 £'000	2015 £'000
Charged to operating profit:		
Current service costs	4,760	5,104
Curtailment gain	(1,184)	(347)
Total charged to operating profit	<u>3,576</u>	<u>4,757</u>
Net interest on net defined benefit liability	<u>1,111</u>	<u>2,309</u>
Recognised in profit and loss	<u>4,687</u>	<u>7,066</u>
Loss/(gain) recognised in other comprehensive income	<u>117,148</u>	<u>(11,591)</u>
Total debit/(credit) relating to defined benefit pension scheme	<u>121,835</u>	<u>(4,525)</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15a. Dow Services UK Pension Plan (continued)

History of experience gains and losses:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Asset experience					
Asset gain/(loss) during year	78,721	(10,848)	47,603	34,409	17,693
Percentage of scheme assets	9.8%	(1.6%)	7.0%	5.6%	3.2%
Liability experience					
Liability loss/(gain) during year	(4,367)	(8,756)	(45,116)	67	(912)
Percentage of scheme liabilities	(0.5%)	(1.2%)	(6.0%)	0.0%	(0.1%)
Liability assumptions					
Liability loss/(gain) during year	200,506	(13,683)	67,424	25,620	56,413
Percentage of scheme liabilities	21.4%	(1.8%)	8.9%	3.5%	8.2%
Deficit in the plan					
Actuarial value of plan liabilities	(935,031)	(740,900)	(756,649)	(727,113)	(691,417)
Fair value of assets	800,803	693,710	684,882	617,532	559,389
Deficit in the plan	<u>(134,228)</u>	<u>(47,190)</u>	<u>(71,767)</u>	<u>(109,581)</u>	<u>(132,028)</u>

The estimated amount of contributions expected to be paid to the scheme by the employer during the year ending 31 December 2017 is £34,907,000.

Defined contributions

The company also operates a defined contribution scheme, for which the pension cost charge for the year amounted to £1,476,810 (2015: £1,363,112).

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15b. Unfunded retirement benefit arrangements

As explained in the accounting policy for pension costs, the company has unfunded retirement benefit arrangements which are defined benefit in nature. These include a transitional arrangement to supplement pension benefits paid to former members of the Dow Chemical Pension Plan following their transfer to the Dow UK Pension Plan in 2003, prior to transferring to the Dow UK Pension Plan in 2006 and the Dow Chemical UK Services Pension Plan in 2010. The pension creditor recognised in these financial statements under FRS 102 is a full provision based upon employees retiring presently with company consent. These benefit arrangements were introduced to maintain an overall pension benefit to employees which is competitive with that provided by comparable employers. The Company will keep the provision of these benefits under review and they will be withdrawn when the Company considers they are no longer needed.

The major assumptions used were:

	2016 %	2015 %
Price inflation	3.45	3.25
Expected rate of increase in pay	3.45	4.25
Expected rate of increase of pensions for in-payment benefits (RPI max 5%)	3.15	3.00
Expected rate of increase for deferred pensioners (pre2009 pension)	2.45	2.25
Discount rate	2.50	3.75

The most significant demographic assumption is the assumption for post-retirement mortality. The mortality table used is the SAPS S2 pensioner, normal retirement's amounts table, projected to calendar year 2013 in line with standard medium cohort improvement rate subject to a long-term improvement rate of 1.50% per annum and multiplied by 0.9 for males and by 1.1 for females.

Allowance for future improvements in longevity is in line with CMI improvement rates subject to a long-term improvement rate of 1.25% per annum. The expected lifetime of a member who is age 65 and the expected lifetime (from age 65) or a member who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Age	Males	Females
65	23.8	24.3
65 in 15 years	25.2	25.7

Total costs recognised in respect of the unfunded retirement benefit arrangements:

	2016 £'000	2015 £'000
Net interest on net defined benefit liability	313	371
Recognised in profit and loss	313	371
Recognised in other comprehensive income	(107)	(1,722)
Total cost/(credit) relating to defined benefit pension scheme	206	(1,351)

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15b. Unfunded retirement benefit arrangements (continued)

Analysis of the movement in the present value of defined benefit obligations was as follows during the year:

	2016 £'000	2015 £'000
Liability in the plan at beginning of year	(8,360)	(10,082)
Net interest on net defined benefit liability	(313)	(371)
Benefits paid directly by the Company	50	371
Actuarial gain	107	1,722
	<u>(8,516)</u>	<u>(8,360)</u>

History of experience gains and losses:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Liability experience:					
Liability gain during year	(310)	(1,710)	179	(2,224)	(1,149)
Percentage scheme liabilities	(3.6%)	(20.5%)	1.8%	(22.7%)	(10.0%)
Liability assumptions:					
Liability loss during year	203	(12)	250	238	393
Percentage of scheme liabilities	2.4%	(0.1%)	2.5%	2.4%	3.4%
Deficit in the plan:					
Actuarial value of plan liabilities	(8,516)	(8,360)	(10,082)	(9,796)	(11,539)
Fair value of assets	-	-	-	-	-
	<u>(8,516)</u>	<u>(8,360)</u>	<u>(10,082)</u>	<u>(9,796)</u>	<u>(11,539)</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15c. Rohm and Haas Retirement Plan

The Rohm and Haas Retirement Plan is a single employer plan that provides final salary defined benefits. The Plan is funded on the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Plan's technical provisions. Deficit contributions are agreed by the Trustees and Company for each comprehensive actuarial valuation for funding purposes.

The most recent comprehensive actuarial valuation was carried out by the Trustee of the Plan as at 1 July 2013 for funding purposes. The Company has employed an independent actuary to appropriately update that actuarial valuation allowing for differences between the actuarial assumptions used by the Plan for funding purposes and those adopted by the Company to measure the defined benefit obligation, as well as adjusting for benefits paid from the Plan and differences between assumed and actual pension increases between 1 July 2013 and 31 December 2016.

The Plan consists of deferred pensioners and pensioners only.

The major assumptions used were:

	2016 %	2015 %
Expected price inflation	3.45	3.25
Expected rate of increase in pay	3.45	4.25
Expected rate of increase of pensions in payment	3.15	3.00
Expected rate of increase for deferred pensioners	2.45	2.25
Discount rate	2.50	3.75

The most significant demographic assumption is the assumption for post-retirement mortality. Mortality is assumed to follow the SAPS S2 pensioner, normal retirement's amounts table, projected to 2013 with medium cohort improvement rates subject to a long-term improvement rate of 1.50% per annum and multiplied by 0.9 for males and by 1.1 for females. The assumptions applied with respect to the expected return on plan assets are consistent with those applied for the Dow Services UK Plan.

Allowance for future improvements in longevity is in line with the CMI improvement rates, subject to a long-term improvement rate of 1.25% per annum. The expected lifetime of a member who is age 65 and the expected lifetime (from age 65) or a member who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Age	Males	Females
65		
65 in 15 years	23.8	24.3
	25.2	25.7

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15c. Rohm and Haas Retirement Plan (continued)

The assets in the scheme were:

	Rohm and Haas Retirement Plan 2016		2015	
	Allocation percentage	£'000	Allocation percentage	£'000
Government bonds	100%	2,916	100%	2,336
Total fair value of assets		2,916		2,336
Present value of scheme liabilities		(2,859)		(2,169)
Surplus in the scheme		57		167
Effect of asset limit		(57)		(167)
Pension liability		-		-

The actual return on plan assets was a gain of £682,000 (2015 – loss £113,000).

Movement in the present value of defined benefit obligations was as follows:

	2016 £'000	2015 £'000
Plan liabilities at 1 January	2,169	2,157
Interest cost	78	79
Actuarial loss	773	60
Benefits paid from plan assets	(161)	(127)
Plan liabilities at 31 December	2,859	2,169

Movement in the fair value of scheme assets was as follows:

	2016 £'000	2015 £'000
Fair value of assets at 1 January	2,336	2,387
Interest income	86	91
Actuarial gain/(loss)	596	(204)
Employer contributions	59	189
Benefits paid	(161)	(127)
Fair value of assets at 31 December	2,916	2,336

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

15c. Rohm and Haas Retirement Plan (continued)

Total costs recognised in respect of the Rohm and Haas Retirement Plan:

	2016 £'000	2015 £'000
Net interest credit on net defined benefit liability	(8)	(12)
Recognised in profit and loss	(8)	(12)
Recognised in other comprehensive income	67	201
Total cost relating to defined benefit pension scheme	59	189

History of experience gains and losses:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Asset experience:					
Asset (gain)/loss during year	(596)	204	(311)	49	1
Percentage of scheme assets	(20.4%)	8.7%	(13.0%)	2.5%	0.1%
Liability experience:					
Liability loss/(gain) during year	126	96	90	106	73
Percentage of scheme liabilities	4.4%	4.4%	4.2%	5.4%	3.7%
Liability assumptions:					
Liability loss/(gain) over year	647	(36)	140	115	210
Percentage of scheme liabilities	22.6%	(1.7%)	6.5%	5.9%	10.6%
Surplus/(deficit) in the plan:					
Actuarial value of plan liabilities	(2,859)	(2,169)	(2,157)	(1,960)	(1,984)
Fair value of assets	2,916	2,336	2,387	1,933	1,614
Effect of asset limit	(57)	(167)	(230)	-	-
Surplus/(deficit) in the plan	-	-	-	(27)	(370)

The estimated amount of contributions expected to be paid to the scheme by the employer during the year ending 31 December 2017 is £64,000.

The Plan assets exceed the liabilities resulting in a surplus of £57,000. As the Company cannot benefit from this surplus, it has not been recognized and therefore the asset is reduced to zero.

16. Financial risk management

The Company is exposed to currency exchange rate risk due to receivable and operating expenses being denominated in non-Sterling currency. The net exposure of each currency is monitored and managed by the use of forward foreign exchange contracts. The forward foreign exchange contracts all mature within 12 months.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) Year ended 31 December 2016

17. Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2016 £'000	2015 £'000
Within one year	-	-
Within two to five years	861	959
After five years	-	-
	<u>861</u>	<u>959</u>

18. Related party transactions

The Company has taken advantage of the exemption granted by Section 33.1A of Financial Reporting Standard 102, not to disclose transactions entered into between two or more members of the Dow Group, provided that any subsidiary which is a party to the transaction is wholly owned by The Dow Chemical Company.

During the year the Company provided secretarial services to the Dow Services UK Pension Plan and Rohm and Haas Retirement Plan – UK. It is not possible to distinguish between the costs incurred on behalf of the pension plans and the costs incurred on behalf of the Company.

During the year the Company incurred the cost of the Pension Protection Fund Levy for the Dow Services UK Pension Plan for the year ending 31 March 2017 for the amount of £222,135 which is recharged by the pension plans to the Company.

19. Ultimate parent company and controlling entity

In the opinion of the directors the ultimate parent company and controlling entity is The Dow Chemical Company, which is incorporated in the United States of America. This is the largest and the smallest group that includes the results of the Company in its consolidated financial statements. The registered address of this company is:

The Dow Chemical Company
Customer Information Centre
PO Box 1206
Midland Michigan 48641-1206
USA.

Copies of the company's consolidated accounts can be obtained from this address.

The immediate parent company is Dow Chemical Company Limited.