

Company Registration No. 00537161

Dow Chemical Company Limited

Annual Report and Financial Statements

For the year ended 31 December 2018



Dow Chemical Company Limited
Annual report and financial statements for the year ended 31st December 2018

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Officers and professional advisers

Directors

E Gadea, appointed on 27th April, 2018

J Case, appointed on 1st April, 2019

G Van Poorten, appointed on 1st May, 2018

Company Secretary

C Jenkins

Registered Office

Station Road

Birch Vale

High Peak

Derbyshire

United Kingdom

SK22 1BR

Bankers

Deutsche Bank AG London

Allied Irish Bank

Auditor

Deloitte LLP

Statutory Auditor

London

United Kingdom

Dow Chemical Company Limited

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Strategic report

Following the merger of The Dow Chemical Company and the DuPont group in 2017, the Group engaged in a series of internal reorganisation and realignment steps to realign the business into three sub-groups: agriculture, material-sciences and speciality products. On 1st April 2019, DowDuPont Inc. completed the separation of its material science business and Dow Inc. became the direct parent company of The Dow Chemical Company, of which the company is a subsidiary.

Performance review

The Dow Chemical Company Ltd (hereinafter referred to as “the company”) acts as contract manufacturer and distributor of chemical and plastic products for a fellow subsidiary of Dow Inc. henceforth referred to as the “Dow Group”

The Company transferred its activities related to the electronic materials business to a fellow group company (Specialty Electronic Materials UK Limited) on 1st November 2018 as a part of internal reorganisation and realignment steps as mentioned above. A gain of £3,287,832 was recorded on the sale. Further, on 1st December 2018, the company also sold its extruded polystyrene insulation business to Ravago Building Solutions UK Limited. A loss of £640,490 was recorded on the sale.

As shown in the Company’s profit and loss account on page 12, turnover increased from £319,996,000 in 2017 to £432,348,000 in 2018. Turnover and cost of sales have increased as a result of an increase in sales in the United Kingdom and also due to an invoice received from a related company for pension recharges which in turn has resulted in an increased rebilling to another Dow group company under the Company’s tolling arrangements.

Operating profit has decreased from a gain amounting to £28,808,000 in 2017 to a loss of £4,589,000 due to an invoice for pension recharges from a related company, which affects cost of sales, distribution and administration costs in line with the function to which the personnel providing their services to the Company relate and also due to an impairment of £1,034,987 in fixed assets.

The balance sheet on page 13 of the financial statements shows the Company’s financial position. At the year end the Company had net assets of £343,715,000 (2017: £345,456,000) and net current assets of £281,807,000 compared to net current assets of £280,479,000 in 2017.

Going concern

The directors have satisfied themselves that, after reviewing the Company’s current financial position, the Company will have adequate resources to continue its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

Principal risks and uncertainties

Competitive pressure, both within the UK and overseas, is a continuing risk for the Company. The Company manages this risk by providing value added services to its customers, having fast response times not only in supplying products but in handling all customer queries and by maintaining strong relationships.

On 23rd June 2016, a referendum in the United Kingdom returned a result in favour of leaving the European Union (Brexit) and on 29th March 2017, the Government of United Kingdom (UK) triggered Article 50 of the Lisbon treaty, which was due to result in the departure of the UK from the European Union on 29 March 2019. This was subsequently extended with the agreement of the European Union to 31st October 2019. On 9th September 2017 the European Union (Withdrawal) (No. 2) Act 2019 was enacted in the UK; as consequence, if a new agreement for the UK’s departure from the European Union is not agreed by 19 October 2019, and UK members of parliament do not vote in favour of leaving the European Union, without an agreement, the UK government will be legally obliged to ask the European Union for a further delay. Unless the European Union agrees to such a delay, the UK will leave the European Union on 31st October 2019.

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The longer term political and economic effects of these events are as yet unclear and the lack of clarity on the UK's relationship with the European Union after the Brexit creates uncertainty. This uncertainty, including over the terms of trade with countries in the European Union and regulation for the Company and its products, as well as the potential for the increased foreign exchange volatility, may negatively impact the Company's financial performance.

The risks faced by the Company 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 (KPI's)

The Dow group manages its operations on the basis of global business units across legal entities globally. For this reason, 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



John E Case
Director

Pure Offices, Suite 67
Brooks Drive
Cheadle Royal Business Park
Cheadle, SK8 3TD

Date: 27th September 2019

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

Environmental matters

The Dow group, of which the Company is a member, recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. The Company operates within Group policies, further details of which may be found in the Securities and Exchange Commission filings of Dow Inc. which are available at www.dow.com.

Financial risk management

The Dow group uses well developed and extensive practices to manage financial risks, including those relating to currencies, liquidity and credit. The Company manages all material foreign exchange exposure risk by the use of foreign currency derivatives. The Company's use of foreign currency derivative instruments is directly related to the net underlying foreign currency exposure; no speculative or trading transactions are undertaken, and the Company does not directly enter into any third party derivative financial instruments. A fellow subsidiary, where needed, provides adequate short-term liquidity.

To ensure timely collection of third party receivables, the Company reviews the financial health of customers using recognised management tools.

Dividends

The directors do not recommend the payment of a dividend for the year (2017: £nil).

Directors and their interests

The details of the Company's directors who have served throughout the year, including any changes subsequent to the year-end, are set out below:

E Gadea (appointed 27th April 2018)
J Case (appointed on 1st April 2019)
G Van Poorten (appointed 1st May 2018)
J Good (resigned on 30th April 2018)
A Jones (resigned on 1st April 2019)

None of the directors have any interests in shares of the Company or of any other United Kingdom group companies.

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.

Future developments

Following the transfer of the sales activities of the Electronic Materials business and the extruded polystyrene insulation business noted above, the directors expect to report a decrease of around 20 per cent in trade for the forthcoming financial year.

Subsequent events

See note 22 to the financial statements for the subsequent events affecting the company.

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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 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 auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



John E Case
Director

Pure Offices, Suite 67
Brooks Drive
Cheadle Royal Business Park
Cheadle, SK8 3TD

Date: 27th September 2019

Dow Chemical Company Limited

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Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires that the directors 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 accounting 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 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.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Dow Chemical Company Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the accounting policies; and
- the related notes 2 to 23.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Dow Chemical Company Limited

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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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors 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.

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

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

Report on other legal and regulatory requirements

Opinions 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 or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

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We have nothing to report in respect of these matters.

Use of our report

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.



Hadleigh Shekle FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
3 September 2019

Dow Chemical Company Limited
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Profit and loss account for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	432,348	319,996
Cost of sales		(430,422)	(312,963)
Gross profit		1,926	7,033
Distribution costs		(12,780)	(920)
Administrative expenses		(1,995)	11,914
Profit on disposal of business	5	2,647	6,161
Other operating income		5,613	4,620
Operating (loss) / profit		(4,589)	28,808
Net finance income	4	1,392	765
(Loss) / profit before taxation	5	(3,197)	29,573
Tax credit / (charge) on (loss) / profit	7	1,491	(4,350)
(Loss) / profit for the year		(1,706)	25,223

The Company has no items of other comprehensive income for the current and preceding year and therefore no separate statement of comprehensive income has been presented.

The profit and loss account relate to continuing operations.

Dow Chemical Company Limited**Annual report and financial statements for the year ended 31st December 2018****Balance sheet as at 31 December 2018**

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	8	4,846	8,214
Investments	9	72,213	72,213
		<u>77,059</u>	<u>80,427</u>
Current assets			
Stocks	10	235	245
Debtors: Amounts falling due within one year	11	452,424	378,855
Cash at bank and in hand		1,216	4,865
		<u>453,875</u>	<u>383,965</u>
Creditors: amounts falling due within one year	12	<u>(172,068)</u>	<u>(103,486)</u>
Net current assets		<u>281,807</u>	<u>280,479</u>
Total assets less current liabilities		<u>358,866</u>	<u>360,906</u>
Provisions for liabilities	13	<u>(15,151)</u>	<u>(15,450)</u>
Net assets		<u><u>343,715</u></u>	<u><u>345,456</u></u>
Capital and reserves			
Called-up share capital	14	4,300	4,300
Other reserves	15	219,335	219,335
Profit and loss account	15	120,080	121,821
Shareholder's funds		<u><u>343,715</u></u>	<u><u>345,456</u></u>

The financial statements of Dow Chemical Company Limited, registered number 00537161 were approved by the Board of Directors and authorised for issue on 27th September 2019.

Signed on behalf of the Board of Directors


John E Case
Director

Pure Offices, Suite 67
Brooks Drive
Cheadle Royal Business Park
Cheadle, SK8 3TD
Date: 27th September 2019

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Statement of changes in equity as at 31 December 2018

	Called-up share capital	Other reserves	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1st January 2017	4,300	219,335	96,651	320,286
Profit for the financial year	-	-	25,223	25,223
Total comprehensive income	-	-	25,223	25,223
Intra-group recharge on vested share options	-	-	(53)	(53)
At 31st December 2017	4,300	219,335	121,821	345,456
At 1st January 2018	4,300	219,335	121,821	345,456
Loss for the financial year	-	-	(1,706)	(1,706)
Total comprehensive loss	-	-	(1,706)	(1,706)
Intra-group recharge on vested share options	-	-	(35)	(35)
At 31st December 2018	4,300	219,335	120,080	343,715

Dow Chemical Company Limited

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Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The particular accounting policies adopted are described below, which have been followed consistently this year and the preceding year.

General information and basis of accounting

Dow Chemical Company Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The address of the registered office is specified on page 3. The nature and the company's operations and its principal activities are set out in the strategic report on page 4 and 5.

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 this is the currency of the primary economic environment in which the Company operates.

These financial statements represent information about the Company as an individual undertaking and not about its group. The Company has taken advantage of the exemption conferred by Section 9 paragraph 3 of FRS 102 and Section 401 of the Companies Act 2006 not to prepare group financial statements as the Company is ultimately a wholly owned subsidiary of Dow Inc. which prepares audited group financial statements in English, drawn up to the same date in a manner equivalent to consolidated financial statements prepared under the Accounting Directive and which are filed with the UK Registrar of Companies.

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 transactions; related party transactions and the requirement to prepare consolidated financial statements. The parent of the group in whose consolidated financial statements the Company's financial statements are included as at 31st December 2018 is DowDuPont Inc. and its financial statements are readily available as set out in note 23.

Going concern

The strategic report on pages 4 and 5 reviews the business activity of the Company for the year and future developments affecting the Company are set out in the directors' report on page 6.

As highlighted in note 12 to the financial statements, the Company utilises a revolving loan facility provided by a fellow subsidiary of the Dow group. Given the business relationship between the Company and other related companies and its net current asset position, the directors consider there will be adequate resources to continue operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Turnover

Turnover represents the amounts invoiced as both a limited risk distributor and a contract manufacturer, excluding value added tax, in respect of the sale of goods and provision of services to customers during the year. In respect of the sale of goods, turnover is recognised at the point of delivery to the customer or at the point of despatch, depending on the terms of sale with the customer. In respect of services, turnover represents the value of contract manufacturing services provided in the year, excluding value added tax, to another Dow group company.

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Business combinations

The Company accounts for business combinations involving the transfer of assets and liabilities from other Dow companies by recognising the book value of assets and liabilities acquired and the actual value of cash consideration paid. Any difference between the cash consideration paid and the net assets acquired is recorded directly to reserves.

Fixed assets

Land, buildings, machinery and equipment are stated in the balance sheet at cost, less accumulated depreciation and any provision for impairment.

Depreciation is provided on a straight-line basis. The expected lives of major classes of assets are as follows:

Freehold buildings	15-25 years
Plant and machinery	5-15 years
Fixtures, fittings, tools and equipment	3-8 years
Computer software	1-5 years

Assets in the course of construction are not depreciated.

Stocks

Stocks are stated in the balance sheet at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost is based on the purchase cost on a first in first out basis. Provision is made for obsolete, slow-moving or defective items where appropriate.

Other operating income

Other operating income principally relates to commissions earned from other Dow group companies and certain rebilling to other group companies. Commission is recognised at the time the sale transaction by the fellow Dow group company is completed with the customer.

Pension costs

The Company no longer participates in a defined benefit pension scheme following the transfer of its employees to another UK subsidiary of the Dow group of companies in a prior period.

Under the pension funding arrangements in place with the related company, any movements in the pension plan liability recognised by the related company under Section 28 of FRS 102 are recharged / credited to the Company and treated as an expense / credit to expense in the profit and loss account and are allocated between cost of sales, administrative and distribution expenses.

Taxation

Current tax, including UK corporation tax and foreign 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 to pay less tax, at a future date, at rates expected to apply when they crystallise based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

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 or, if appropriate, at the forward contract rate. Translation differences are dealt with in the profit and loss account.

Dow Chemical Company Limited

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Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Cash flow

At 31st December 2018, the Company meets the definition of a qualifying entity under FRS 102 and has taken advantage of the disclosure exemption provided by paragraph 1.12(b) of FRS 102 from preparing a Statement of Cash Flows. The Company was a wholly-owned subsidiary of DowDuPont Inc. which prepared consolidated accounts for the period which contain a consolidated cash flow statement that includes the cash flows of the Company and which are publicly available.

Share-based payments

Following the transfer of all employees of the Company to another UK subsidiary of the Dow group of companies, all outstanding share options were also transferred. The expense for the year is rebilled from that company to Dow Chemical Company Limited under the services agreement together with a mark-up.

The share option reserve outstanding as at 30 June 2010 was transferred to retained earnings. Future inter-group recharges received on vesting of share options issued prior to 30 June 2010 are charged directly to retained earnings.

People related costs

People related costs are rebilled to the Company from another UK subsidiary of the Dow group of companies under a service agreement for a fee based on the costs incurred together with a mark-up. These costs are recorded in cost of sales, administration and distribution expenses based on the function to which the personnel providing their services to the Company relate.

Interest income

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the applicable effective rate of interest.

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.

i. 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.

(ii) Investments

Investments in subsidiaries are measured at cost less impairment.

Dow Chemical Company Limited

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(iii) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange 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 Dow Inc. which are readily available as set out in note 22.

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.

Exceptional items

The directors consider that items of income or expense which derive from events or transactions that fall within the ordinary activities of the Company and which individually or, if of a similar type, in aggregate, are material by virtue of their size or incidence should be separately disclosed as exceptional items.

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.

There are no critical judgements in applying the company's accounting policies, except those involving estimations which are discussed below.

Key sources of estimation uncertainty

The critical accounting judgements that the directors have made in the process of applying the Company's accounting policies that include assumptions about the future and other key sources of estimation uncertainty at the reporting period that have may have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

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a) Onerous leases

Provisions are required to be recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. In determining the amount to be provided, the directors are required to make estimates of the cost of settlement, having regard to the facts and circumstances at each balance sheet date. The principal judgement in relation to onerous leases relates to the Company's lease obligations at production facilities that are no longer in use which requires the Company to estimate the present value of the future lease obligations that the Company will be required to make, having regard to the remaining length of the lease, the outcome of outstanding rent reviews and the potential for either sub-let or assignment of the lease. At 31 December 2018, the Company had accrued obligations of £5.6 million (2017 - £5.8 million) for onerous leases.

b) Provisions for environmental remediation

The Company determines the costs of environmental remediation of its facilities based on evaluation of current law and existing remediation technologies. Inherent uncertainties exist in such evaluations primarily due to unknown environmental conditions, changing government regulations and legal standards regarding liability, and emerging remediation technologies. The recorded liabilities are adjusted periodically as remediation efforts progress, or as additional technical or legal information becomes available. At 31 December 2018, the Company had accrued obligations of £9.5 million (2017 - £9.6 million) for probable environmental remediation and restoration costs. This is management's best estimate of the costs for remediation and restoration which respect to environmental matters for which the Company has accrued liabilities, although it is reasonably possible that the ultimate cost with respect to these matters could vary from this amount.

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3. Turnover

In the opinion of the directors, the company operates only one class of business, the manufacture and distribution of chemical and plastic products for a fellow subsidiary of the Dow group.

Turnover by destination

	2018	2017
	£'000	£'000
United Kingdom	369,272	349,336
Rest of Europe	63,075	(29,335)
North America	1	(5)
	<u>432,348</u>	<u>319,996</u>

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

	2018	2017
	£'000	£'000
Sale of Goods	388,334	363,160
Rendering of Services	44,014	(43,164)
Rental Income	105	131
Commission Income	5,649	4,528
Interest Income	1,615	1,651
	<u>439,717</u>	<u>326,306</u>

All of the Company's turnover, profit before tax and net assets originate from or are located in the United Kingdom

4. Finance income (net)

	2018	2017
	£'000	£'000
Financial assets at amortised cost:		
Interest receivable to group companies	1,615	1,651
Financial liabilities at amortised cost:		
Interest payable to group companies	(113)	(789)
Other	(3)	(1)
	<u>1,499</u>	<u>861</u>
Unwinding of discount on provisions (note 13)	(107)	(96)
	<u>1,392</u>	<u>765</u>

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5. (Loss) / profit before taxation

(Loss) / profit before taxation is stated after charging / (crediting):

	2018	2017
	£'000	£'000
Tangible fixed assets impairment losses (note 8)	1,035	582
Depreciation of tangible fixed assets (note 8)	957	1,164
Profit on disposal of business	(2,647)	(6,161)
Loss on foreign exchange	79	320
Operating lease rentals	1,869	2,401
Commission income	<u>(5,649)</u>	<u>(4,528)</u>
Auditor's remuneration:		
Fees payable to the company's auditors for the audit of the company's annual accounts	89	51
Assurance services other than the auditing of the company's accounts	15	-
Other non-audit services	3	-
	<u>107</u>	<u>51</u>

The loss on foreign exchange of £79,353 (2017: £319,903) has been included within administrative expenses.

The Company transferred its activities related to the electronic materials business to a fellow group company (Specialty Electronic Materials UK Limited) on 1st November 2018 as a part of internal reorganisation and realignment steps as mentioned above. A gain of £3,287,832 was recorded on the sale. Further, on 1st December 2018, the company also sold its extruded polystyrene insulation business to Ravago Building Solutions UK Limited. A loss of £640,490 was recorded on the sale.

6. Remuneration of directors

Two (2017: two) of the directors who held office in the current year, were also directors and executives of a fellow group company, Dow Chemical Services UK Ltd and one of them also served as a director of Dow Agrosociences Ltd during the year (2017: one). They received total remuneration of £729,365 (2017: £796,000) from Dow Chemical Services UK Ltd during the year, for the period they held office, but it is not practicable to allocate this between their services as directors and executives for these entities.

7. Tax (credit)/charge on (loss)/ profit

	2018	2017
	£'000	£'000
Analysis of tax (credit)/ charge for the year		
<i>Current tax:</i>		
UK corporation tax at 19.00% (2017: 19.25%)	-	4,247
Foreign tax	-	6
Adjustments in respect of prior periods	(496)	(4,993)
Total current tax credit	<u>(496)</u>	<u>(740)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(989)	374
Adjustments in respect of prior periods	(6)	4,716

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Total deferred tax (credit)/charge	(995)	5,090
Total tax (credit)/ charge on (loss)/ profit	(1,491)	4,350

The tax assessed for the year is higher (2017: higher) than that resulting from applying the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018	2017
	£'000	£'000
(Loss)/ profit before tax	(3,197)	29,573
Tax on (loss)/ profit at rate of 19.00% (2017: 19.25%)	(607)	5,693
Effects of:		
Foreign tax	-	6
Fixed asset timing differences	84	(1,029)
Expenses not deductible for tax purposes	-	6
Other permanent differences	3	
Other tax adjustments, reliefs and transfers	(584)	
Adjustments in respect of prior years	(503)	(277)
Other deferred tax movements	116	(49)
	(1,491)	4,350

Deferred tax is recognised based on the substantively enacted corporation tax rate of 17% (2017:17%)

	2018	2017
	£'000	£'000
Brought forward	(3,063)	(8,153)
Origination and reversal of timing differences	(996)	5,090
Carried forward	(4,059)	(3,063)

The deferred tax asset comprises:

Fixed asset timing differences	683	615
Short-term timing differences	2,413	2,448
Losses and other deductions	963	-
Deferred tax asset (note 11)	4,059	3,063

The standard rate of tax applied to reported profit or loss is 19% (2017: 19.25%), having reduced from 20% to 19% effective 1 April 2017. Deferred tax has been provided at 17% (2017: 17%) following the enactment of the Finance Act 2016 which will result in the rate of corporation tax reducing to 17% with effect from 1 April 2020. During the beginning 1st January 2019, the net reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £1,203,532(2017: £357,000). This is due to net deferred tax assets which are expected to reverse in the following year.

There is no expiry date for tax losses and other timing differences.

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8. Tangible fixed assets

	Computer Software £'000	Freehold Land and Buildings £'000	Plant and Machinery £'000	Fixture, fittings tools and equipment £'000	Assets Under Construction £'000	Total £'000
Cost						
As at 1st January 2018	1,487	3,810	63,796	2,965	1,173	73,231
Additions	-	2	408	150	974	1,534
Reclassifications	-	6,107	(5,565)	32	(574)	-
Disposals*	(112)	(3,277)	(34,458)	(307)	(1,316)	(39,470)
As at 31st December 2018	1,375	6,642	24,181	2,840	257	35,295
Accumulated Depreciation						
As at 1st January 2018	1,478	891	60,046	2,602	-	65,017
Charge of the year	5	174	698	80	-	957
Reclassifications	-	6,107	(6,107)	-	-	-
Impairment charge for the year	-	614	-	421	-	1,035
Disposals*	(112)	(3,212)	(32,929)	(307)	-	(36,560)
As at 31st December 2018	1,371	4,574	21,708	2,796	-	30,449
Net Book Value						
As at 31st December 2018	4	2,068	2,473	44	257	4,846
As at 1st January 2018	9	2,919	3,750	363	1,173	8,214

Land and buildings at net book value comprise:

	2018 £'000	2017 £'000
Freehold	2,068	2,919

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9. Fixed asset investments

	Shares in subsidiary companies
	£'000
At 1st January 2018	77,156
Additions	-
At 31st December 2018	<u>77,156</u>
Provision for impairment	
At 1st January 2018	(4,943)
Charged in the year	-
At 31st December 2018	<u>(4,943)</u>
Net book value	
At 31st December 2018	<u>72,213</u>
At 31st December 2017	<u>72,213</u>

Additional information on subsidiary companies:

Particulars	Country of Incorporation	Class of Shares	Holding	Principal activity
Dow Services Trustees UK Ltd	Great Britain	Ordinary Shares	100%	Corporate trustee of Dow UK pension scheme
Dow Limited**	Great Britain	Ordinary Shares	100%	Dormant
Hyperlast Ltd*	Great Britain	Ordinary Shares	100%	Provider of technical and customer services
Dow Chemical Services UK Ltd*	Great Britain	Ordinary Shares	100%	UK People services company
Dow UK Limited**	Great Britain	Ordinary Shares	100%	Dormant
Dow Trent Limited **	Great Britain	Ordinary Shares	100%	Holding Company

The registered office of each of the companies above is:

* Station Road
 Birch Vale
 High Peak
 Derbyshire
 England
 SK22 1BR

**Cardiff Road
 Barry
 Vale of Glamorgan
 Wales
 CF63 2YL

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10. Stocks

	2018	2017
	£'000	£'000
Maintenance, repair and operations goods	235	245

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

11. Debtors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade debtors	46,477	45,156
Amounts owed by group companies	400,342	329,303
Other debtors	979	627
VAT	172	119
Deferred taxation (note 7)	4,059	3,063
Prepayments and accrued income	395	587
	452,424	378,855

Amounts owed to group companies consist of intercompany loans and trade balances. The loans are revolving loans with the interest rate based on the one-month LIBOR rate and a credit spread that is representative of transactions with unrelated parties under similar terms and conditions.

12. Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	2,406	3,220
Amounts owed to group companies	150,688	71,950
Taxation and social security	13,652	14,941
Accruals and deferred income	795	817
Other creditors	4,527	12,558
	172,068	103,486

Amounts owed to group companies consist of intercompany loans and trade balances. The loans are revolving loans with the interest rate based on the one-month LIBOR rate and a credit spread that is representative of transactions with unrelated parties under similar terms and conditions.

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13. Provision for liabilities

	Provision for Environmental remediation	Provision for Onerous Lease	Total
	£'000	£'000	£'000
At 1 st January 2018	9,642	5,808	15,450
Add: unwinding of discount	10	107	117
Less: utilisation of provision	(588)	(173)	(761)
Charge/(credit) to profit and loss	453	(108)	345
At 31 st December 2018	<u>9,517</u>	<u>5,634</u>	<u>15,151</u>

The provision for environmental remediation relates to the Company's sites at Mirfield, Middlesbrough, Seal Sands, Jarrow, and Birch Vale.

Provisions for environmental matters are recorded when contamination is identified, and a liability can be reasonably estimated based on current regulations and existing remediation technologies. The amount provided for environmental remediation is the Company's best estimate of these costs, although the ultimate cost with respect to these matters could be in excess of this amount. The environmental remediation provision is expected to be utilised during the next five years.

The provision for an onerous lease arises from the decision to close the Seal Sands site and is expected to be utilised over the remaining period of the lease, which is long-term in nature.

14. Called up share capital

	2018	2017
	£'000	£'000
Allotted, called up and fully paid:		
4,300,078 (2017: 4,300,078) ordinary shares of £1 each	4,300	4,300

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.

15. Reserves

	Other reserves	Profit and Loss account	Total
	£'000	£'000	£'000
Balance as on 1st January	219,335	121,821	341,156
Loss for the year	-	(1,706)	(1,706)
Intra-group recharges on vested share options	-	(35)	(35)
Balance as on 31st December	<u>219,335</u>	<u>120,080</u>	<u>339,415</u>

The profit and loss account reserve include all current and prior period retained profit and losses. Other reserves comprise the contribution received from other group companies in excess of net assets transferred following the hive up of operations from other group companies in 2016.

16. Operating leases

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

	2018		2017	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Leases which expire:				
Within one year	-	34	-	-
Within two to five years	-	-	-	77
After five years	12,556	-	13,208	-
	12,556	34	13,208	77

17. Capital commitments and guarantees

Dow Chemical Company Limited has bank guarantees outstanding in favour of HMRC for £20,000 (2017: £20,000).

An agreement was signed by Dow Chemical Company Limited with a developer on 23rd November 2018 for the construction of a new headquarters for the company in Cheadle, Manchester. Contracted for expenditure is £5.2 million, which is not provided for at the balance sheet date.

18. Contingent liabilities

The Company has granted a fixed charge over a specified bank account. The balance of this bank account is zero at the end of the year (2017 – nil).

The Company also provides guarantees to the Dow Services UK Pension Plan whereby it is liable for the pension funding obligations of Dow Chemical Services UK Ltd in case that company cannot meet its obligations.

19. Related party disclosures

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 a party to the transaction is wholly owned by Dow Inc.

20. Group offset arrangement with bank

The Company is a party to a group bank offset arrangement with Deutsche Bank whereby positive and negative cash balances in certain bank accounts of certain Dow group companies may be offset. The Company has agreed to allow the bank to set off at any time, without notice, any sum standing on the current account of the Company against the current account of specific group companies. The maximum liability of the Company at any time shall not exceed the cash balance in the company's bank account.

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21. Sale of XPS business

On 1st December 2018, DowDuPont sold its European extruded polystyrene insulation (XPS) business to Ravago Building Solutions UK Limited. The divestment included the company's XPS operations in Kings Lynn. The turnover and the gross profit related to the business were:

	2018	2017
	£'000	£'000
Turnover	26,345	25,637
Gross profit	504	452

22. Subsequent Events

At the end of February 2019, the directors proposed and approved a total interim dividend of £80.0 million for the year 2019 which was paid on 4th March 2019.

23. Immediate and ultimate parent company and controlling party

In the opinion of the directors at the balance sheet date the immediate parent company is Dow Europe Holding BV and the ultimate parent company, controlling entity, and parent of the smallest and the largest group for which consolidated accounts are prepared for which the Company is a part, was The DowDuPont Inc. which is incorporated in the United States of America.

At the date of approval of these financial statements, the ultimate parent company and controlling entity is Dow Inc. which is incorporated in the United States of America and whose registered address is:

Dow Inc.
2211 H. H. Dow Way,
Midland,
MI 48674
USA.

Copies of the group financial statements of The Dow Inc. can be obtained from the above address.