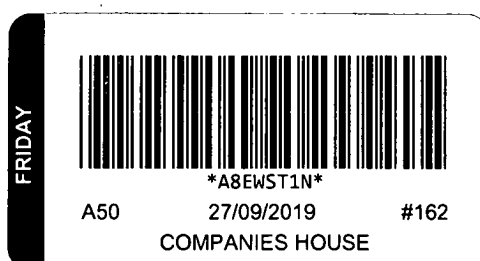


Company Registration No. 07204046

Dow Chemical Services UK Limited

Annual Report and Financial Statements

For the year ended 31 December 2018



Dow Chemical Services UK Limited

Annual report and financial statements 2018

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Dow Chemical Services UK Limited

Annual report and financial statements 2018

Officers and professional advisers

Directors

L Antuna
N Ephgrave (resigned on 26 June 2018)
A Farre Pelaez (resigned on 24 July 2019)
E Gadea (appointed on 30 April 2018)
J Good (resigned on 30 April 2018)
A Jones (resigned on 1 April 2019)
J Roberts
L Poli (resigned on 7 February 2018)
G de Lahidalga (resigned on 5 December 2018)
J Case (appointed on 1 April 2019)
M Leopardi (appointed 24 July 2019)
L Massimiliano (appointed on 24 July 2019)

Company Secretary

C Jenkins

Registered Office

Station Road
Birch Vale
High Peak
Derbyshire
SK22 1BR

Bankers

Deutsche Bank AG London

Auditor

Deloitte LLP
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 Inc. 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 £689,000 (2017: £285,000) relating to the impact of the restructuring announcements made by The Dow Chemical Company relating to the relocation of human resources and supply chain role from the UK to the central hub in Terneuzen and costs related to the closing of the King's Lynn site which has led to a reduction in the number of employees needed to provide services to The Dow Chemical Company.

The results for the year ended 31 December 2018 are set out in the profit and loss account on page 10. The profit for the year before taxation was £24,026,000 (2017: loss £99,049,000) which includes an amount recognised in other operating income of £21,807,000 relating to the recognition of income on the charge back of actuarial losses recognized in the statement of comprehensive income. In 2017, this was an expense of £101,028,000 due to passing back to participating companies of actuarial gains recognised in the statement of comprehensive income (SOC1). The underlying trading profit before tax after excluding this item is £2,219,000 (2017: £1,979,000).

The financial position of the Company at the end of the year is shown on page 12. Net assets at the end of the year increased to £17,298,000 (2017: £17,735,000) as the profit for the year was offset by actuarial losses recorded in the statement of comprehensive income.

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 2018 due to the fact that Dow Chemical Company Limited, to whom the Company provides services, sold a portion of its business in Q4 2018.

Principal risks and uncertainties

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

Dow Chemical Services UK Limited

Strategic report (continued)

Key performance indicators (KPIs)

The Dow Inc. 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 Inc. 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



John E Case
Director

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

Date: 27th September 2019

Dow Chemical Services UK Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018. 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 Dow Inc. which are readily available as set out in note 20.

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 has limited credit risk as receivables are due from other companies within the Dow Inc group. 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 2018 (2017: 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.

Subsequent events

Details of subsequent events are provided in note 19 to the financial statements.

Dow Chemical Services UK Limited

Strategic report (continued)

Auditor

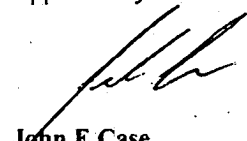
Each of the persons who is a director at the date of approval of this report confirms that:

- 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.

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 auditor 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



John E Case
Director

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

Date: 27th September 2019

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 accounting estimates that are reasonable and prudent;
- * state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

Dow Chemical Services UK Limited

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit 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 of Dow Chemical Services UK Limited (the 'company') 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 20.

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 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 Services UK Limited

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

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 statement of directors' responsibilities, 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 Financial Reporting Council'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.

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

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.

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
27 September 2019

Dow Chemical Services UK Limited

Profit and loss account For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	36,873	36,195
Cost of sales		<u>(34,804)</u>	<u>(31,005)</u>
Gross profit		2,069	5,190
Other operating income/(expense)		<u>21,807</u>	<u>(101,028)</u>
Operating profit/(loss)		23,876	(95,838)
Net finance income/(costs)	4	<u>150</u>	<u>(3,211)</u>
Profit/(loss) before taxation	5	24,026	(99,049)
Tax (charge)/credit on profit/(loss)	7	<u>(5,029)</u>	<u>19,466</u>
Profit/(loss) for the financial year		<u><u>18,997</u></u>	<u><u>(79,583)</u></u>

All amounts relate to continuing operations.

Dow Chemical Services UK Limited

Statement of comprehensive income For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit/(loss) for the financial year		18,997	(79,583)
Actuarial (loss)/gain relating to the pension scheme	15	(21,807)	101,028
Deferred taxation on pension movements		2,805	(17,174)
Current taxation on pension contributions		1,008	-
Other comprehensive (loss)/income		(17,994)	83,854
Total comprehensive income		1,003	4,271

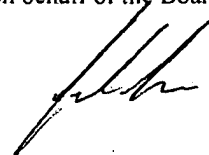
Dow Chemical Services UK Limited

Balance sheet As at 31 December 2018

	Note	2018 £'000	2017 £'000
Current assets			
Debtors due within one year	8	150,037	34,425
Debtors due after one year	8	1,612	4,440
		<u>151,649</u>	<u>38,865</u>
Creditors: amounts falling due within one year	9	(102,468)	(5,134)
Net current assets		<u>49,181</u>	<u>33,731</u>
Provisions for liabilities	10	(968)	(759)
Pension liability	15	(30,915)	(15,237)
Net assets		<u>17,298</u>	<u>17,735</u>
Capital and reserves			
Called up share capital	11	1,000	1,000
Other reserves	12	(2,051)	236
Profit and loss account	12	18,349	16,499
Shareholder's funds	13	<u>17,298</u>	<u>17,735</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 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

27th September 2019

Dow Chemical Services UK Limited

Statement of changes in equity For year ended 31 December 2018

	Called-up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 31 December 2016	1,000	2,100	11,299	14,399
Loss for the financial year	-	-	(79,583)	(79,583)
Actuarial gain relating to pension scheme (note 15)	-	-	101,028	101,028
Deferred tax on pension movements	-	-	(17,174)	(17,174)
Total comprehensive income	-	-	4,271	4,271
Cash payments to parent company for share-based payment	-	(1,606)	-	(1,606)
Credit to equity for equity settled share-based payment	-	671	-	671
Transfer on vested share options	-	(929)	929	-
At 31 December 2017	1,000	236	16,499	17,735
Profit for the financial year	-	-	18,997	18,997
Actuarial loss relating to pension scheme (note 15)	-	-	(21,807)	(21,807)
Deferred tax on pension movements	-	-	2,805	2,805
Current taxation on pension contributions	-	-	1,008	1,008
Total comprehensive income	-	-	1,003	1,003
Cash payments to parent company for share-based payment	-	(1,953)	-	(1,953)
Credit to equity for equity settled share-based payment	-	513	-	513
Transfer on vested share options	-	(847)	847	-
At 31 December 2018	1,000	(2,051)	18,349	17,298

Dow Chemical Services UK Limited

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 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 a private company limited by shares 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, reconciliation of the number of shares outstanding at the beginning and end of the period 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 Dow Inc. and its financial statements are readily available as set out in note 20.

Going concern

The Company is part of the Dow Inc. Group. It reported a profit for the year and 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.

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) For the year ended 31 December 2018

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 Dow Inc. which are readily available as set out in note 20.

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) For the year ended 31 December 2018

I. 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. On the 1ST of August 2018, The Rohm and Haas retirement Plan was settled for an amount of £950,000.

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) For the year ended 31 December 2018

1. Accounting policies (continued)

Share-based payments

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

Dow Inc., 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, Dow Inc. 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 Dow Inc. 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 Dow Inc 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 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)

For the year ended 31 December 2018

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.

Key sources of estimation uncertainty

In the assessment of the directors, there are no key assumptions concerning the future, or other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. Turnover

All turnover originated in the United Kingdom and is provided to customers in the United Kingdom and relates solely to the provision of people-related services to other Dow Inc. group companies.

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

	2018 £'000	2017 £'000
Rendering of services	36,873	36,195
Interest income	460	106
Revenue	<u>37,333</u>	<u>36,301</u>

4. Net finance income/(costs)

	2018 £'000	2017 £'000
Receivable on:		
Group loans	<u>460</u>	<u>106</u>
Payable on:		
Group loans	(261)	(207)
Other finance charges:		
Net pension interest expense (note 15)	<u>(49)</u>	<u>(3,110)</u>
	<u>(310)</u>	<u>(3,317)</u>
Net finance income/(costs)	<u>150</u>	<u>(3,211)</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

5. Profit/(loss) before taxation

	2018 £'000	2017 £'000
Profit/(loss) before taxation is stated after charging/(crediting):		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	70	70
Fees payable to the Company's auditor for iXBRL conversion services of the Company's annual accounts	1	-
Operating lease rentals	278	310
Share-based payment charge	513	830
Foreign exchange loss/(gain)	10	(8)
	<u>70</u>	<u>(8)</u>

The Company's auditor received remuneration of £36,500 for the pension scheme audit (2017 - £36,500) and £1,495 for iXBRL conversion services.

6. Directors' remuneration and staff costs

Directors' remuneration

	2018 £'000	2017 £'000
Directors emoluments in respect of services to the Company:		
Management salaries	729	927
Pension contributions	46	33
Benefits	1	1
	<u>776</u>	<u>961</u>

	2018 No.	2017 No.
The number of directors who:		
Are members of a defined benefit pension scheme	1	1
Are members of a hybrid pension scheme	-	1
Exercised options or other shares in Dow Dupont Inc	1	3
Had awards receivable in the form of shares under a long-term incentive package	-	1
	<u>-</u>	<u>1</u>

The emoluments for the year for the highest paid director in respect of services provided to the Company were £599,102 (2017: £688,855) and pension contributions were £nil (2017: £nil). The highest paid director is not a member of the Company's pension schemes (2017: not a member). There is no accrued lump sum. The highest paid director received 2,700 shares in respect of qualifying services under a long-term incentive scheme.

One (2018: one) of the current directors resigned during the year and received payment amounting to £122,000 for redundancy.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

6. Directors' remuneration and staff costs (continued)

Employee costs, including executive directors:

	2018 £'000	2017 £'000
Wages and salaries	10,360	17,467
Social security costs	1,031	1,807
Other pension costs	14,914	5,173
Share based payments	513	830
	<u>26,818</u>	<u>25,277</u>

Other pension costs include only those items included within operating costs, which in 2018 included past service costs of £11,259,000 in connection with estimated guaranteed minimum payment obligations (2017 - £nil). Items reported elsewhere have been excluded. In addition, severance costs of £689,000 (2017: £285,000) were recognized during the year.

The monthly average number of employees employed by the company during the year ended 31 December 2018 was as follows:

	2018 No.	2017 No.
Administration	10	16
Operations	103	196
Sales and marketing	41	65
	<u>154</u>	<u>277</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

7. Taxation

	2018 £'000	2017 £'000
The charge for taxation comprises:		
UK corporation tax at 19% (2017: 19.25%)	2,401	(11,025)
Adjustments in respect of prior years	(9,407)	(972)
Total current tax (credit)/credit	(7,006)	(11,997)
Deferred tax		
Timing differences, originating and reversal	2,666	(7,469)
Effect of changes in tax rate	(278)	-
Adjustments in respect of prior years	9,647	-
Total deferred tax charge/(credit)	12,035	(7,469)
Total tax charge/(credit) on profit/(loss)	5,029	(19,466)

The standard rate of tax applied to reported profit or loss is 19% (2017: 19.25%). 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 year beginning 1 January 2019, the net reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £4,280,000 (2017: £10,682,000). This is due to losses carried forward and 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) For the year ended 31 December 2018

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 19% (2017: 19.25%) as a result of the following:

	2018 £'000	2017 £'000
Profit/(loss) before tax	24,026	(99,049)
Tax at thereon 19% (2017: 19.25%)	4,565	(19,067)
Effects of:		
Expenses not deductible for tax purposes	502	(2)
Adjustments to tax charge in respect of previous periods	240	(972)
Adjustments related to tax rate	(278)	575
Total tax (charge)/credit for the year	5,029	(19,466)

8. Debtors:

- Amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed by group undertakings	145,450	23,475
Deferred tax	4,280	10,682
Other debtors	276	262
Prepayments and accrued income	31	6
	150,037	34,425

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.

The deferred tax asset arises in respect of the following:

	2018 £'000	2017 £'000
Pension timing differences	5,391	2,590
Short-term timing differences	(119)	442
Losses and other timing differences	620	12,090
	5,892	15,122

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

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

8. Debtors:

- Amounts falling due after one year

	2018 £'000	2017 £'000
Deferred tax asset	1,612	4,440

The movement in deferred tax asset is set out below:

	2018 £'000
At 1 January 2018	15,122
Charged to the profit and loss account	(12,035)
Credited to the statement of comprehensive income	2,805
At 31 December 2018	5,892

9. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	205	896
Amounts owed to group undertakings	100,386	1,978
Other creditors including taxation and social security	985	644
Accruals	892	1,616
	102,468	5,134

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.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

10. Provisions for liabilities

The long-term sick provision relates to a shortfall in permanent health insurance. The provision is expected to be utilised over 6 years.

Movements in the year:

	Restructuring £'000	Long-term sickness £'000	Other £'000	Total £'000
At 1 January 2018	387	88	284	759
Charged to profit and loss account	689	-	-	689
Utilised	(279)	(18)	(183)	(480)
At 31 December 2018	<u>797</u>	<u>70</u>	<u>101</u>	<u>968</u>

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

	2018 £'000	2017 £'000
Allotted, issued and fully paid at nominal value: 1 million ordinary shares at £1.00 each	<u>1,000</u>	<u>1,000</u>

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 reserves £'000	Profit and loss account £'000
At 1 January 2018	236	16,499
Credit to equity for share-based payments	513	-
Cash payments to parent company for share-based payments	(1,953)	-
Transfer on vested share options	(847)	847
Profit for the year	-	18,997
Total other comprehensive loss the year	-	(17,994)
At 31 December 2018	<u>(2,051)</u>	<u>18,349</u>

The other reserve relates to share-based payments. Where Dow Inc. 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 Dow Inc. 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) For the year ended 31 December 2018

13. Réconciliation of movement in shareholder's funds

	2018 £'000	2017 £'000
Opening balance	17,735	14,399
Profit/(loss) for the year	18,997	(79,583)
Other comprehensive (expense)/income for the year (net)	(17,994)	83,854
Net debit to equity for share-based payments	(1,440)	(935)
Closing shareholder's funds	<u>17,298</u>	<u>17,735</u>

14. Share-based payments

In connection with the merger between The Dow Chemical Company and DuPont, on 31 August 2017 ("Conversion Date") all outstanding Dow stock options and deferred stock awards were converted into stock options and deferred stock awards with respect to DowDuPont Common Stock. The stock options and deferred stock awards have the same terms and conditions under the applicable plans and award agreements prior to the Merger. All outstanding and non-vested performance deferred stock awards were converted into deferred stock awards with respect to DowDuPont Common Stock at the greater of the applicable performance target or the actual performance as of the effective time of the Merger.

The total share-based payment recognised in the profit and loss for the year was £513,000 (2017 - £830,000).

Equity-settled share option scheme

Dow Inc. 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 Dow Inc.'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:

	2018		2017	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	76,224	25.33	119,768	22.67
Granted during the year	10,560	10.89	5,020	10.77
Transferred during the year	(1,487)	26.59	(33,084)	23.89
Exercised during the year	(11,617)	22.22	(14,030)	20.55
Forfeited during the year	(2,280)	28.87	(1,450)	22.32
Outstanding at the end of the year	<u>71,400</u>	<u>29.62</u>	<u>76,224</u>	<u>25.33</u>
Exercisable at the end of the year	<u>50,740</u>	<u>16.28</u>	<u>65,434</u>	<u>23.16</u>

In 2018 options were granted on 15 February. The aggregate of the estimated fair values of the share options granted was £115,035 (2017: £54,044). The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 5.13 years (2017: 4.91 years), with an exercise price ranging between £20.34 and £50.63 (2017: £19.44 to £45.62).

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

14. Share-based payments (continued)

Deferred and restricted stocks

Dow Inc. 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:

	2018		2017	
	Number of stocks	Grant date fair value (£)	Number of stocks	Grant date fair value (£)
Outstanding at beginning of year	20,088	36.53	39,328	31.04
Granted during the year	6,310	50.63	5,010	48.92
Transferred during the year	1,902	9.62	(10,937)	21.15
Vested during the year	(9,244)	31.64	(12,157)	28.36
Forfeited during the year	(1,380)	44.75	(1,156)	32.29
Outstanding at the end of the year	17,676	58.55	20,088	36.53

In 2018, stocks were granted on 15 February. The aggregate of the estimated fair values of the deferred stock granted was £319,457. The deferred stock outstanding at 31 December 2018 had a weighted average remaining contractual life of 1.74 years (2017: 2.11 years), with a grant date fair value of £50.63 (2017: £48.92).

Performance deferred stock awards

Dow Inc. grants performance deferred stock awards that vest when Dow Inc. 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.

In connection with the merger between The Dow Chemical Company and DuPont, on 31 August 2017 all outstanding and non-vested performance deferred stock awards were converted into deferred stock awards with respect to DowDuPont Common Stock at the greater of the applicable performance target or the actual performance as of the effective time of the merger.

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

	2018		2017	
	Number of stocks	Grant date fair value (£)	Number of stocks	Grant date fair value (£)
Outstanding at beginning of year	22,496	38.56	33,710	30.50
Granted during the year	-	-	7,097	61.13
Transferred during the year	2,204	14.56	(6,601)	26.47
Vested during the year	(9,228)	41.90	(11,710)	28.36
Forfeited during the period	(400)	25.61	-	-
Outstanding at the end of the year	15,072	54.50	22,496	38.56

In 2018 performance deferred stock awards were granted on 10 February and the aggregate of the estimated fair values was £994,417. In 2017, stocks were granted on 10 February and the aggregate of the estimated fair values was £433,820. The deferred stock awards relating to former performance deferred stock awards outstanding at

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

14. Share-based payments (continued)

31 December 2018 had a weighted average remaining contractual life of 1.97 years (2017: 1.97 years) with a grant date fair value ranging between £33.13 and £46.71 (2017: £33.13 and £46.71).

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 no ordinary shares to employees of the company in 2018 (2017: 16,807 shares), at weighted average share price of (2017: £47.35).

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

Until 31 July 2017 the Dow Services UK Pension Plan was a single employer plan that provides final salary and career average 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. Future service contributions and deficit contributions are agreed by the Trustees and Company for each comprehensive actuarial valuation for funding purposes.

On 1 August 2017 Dow Chemical Services UK Limited admitted to the plan two new participating employers as associated employers, Dow Agrosiences Limited and Specialty Electronic Materials UK Limited.

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 31 December 2016 for funding purposes. The Company has employed an independent actuary to 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 31 December 2016 and 31 December 2018.

The major assumptions used were:

	2018 %	2017 %
Expected price inflation	3.45	3.40
Expected rate of increase in pay	3.45	3.40
Expected rate of increase of pensions in payment	3.15	3.10
Expected rate of increase for deferred pensioners	2.45	2.40
Discount rate	2.75	2.50

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 2016 with medium cohort improvement rates subject to a long-term improvement rate of 1.75% per annum and multiplied by 0.9 for males and by 1.1 for females.

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

15a. Dow Services UK Pension Plan (continued)

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.

Age	Males	Females
65	23.0	23.5
65 in 15 years	24.0	24.6

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

	Dow Services UK Pension Plan 2018		2017	
	Allocation percentage	£'000	Allocation percentage	£'000
Equities	37.21%	306,193	41.55%	364,074
Pooled Investment Vehicles	-	-	-	-
Government Bonds	36.24%	298,211	35.07%	307,294
Hedge Funds/Reinsurance	7.69%	63,279	7.09%	62,125
Cash and Derivatives	2.80%	23,041	1.54%	13,494
Property	7.87%	64,761	6.64%	58,182
Other Alternatives	4.53%	37,276	4.39%	38,466
Annuity policy	3.66%	30,118	3.72%	32,595
Total fair value of assets		822,879		876,230
Present value of scheme liabilities		(847,583)		(883,622)
Deficit in the scheme		(24,704)		(7,392)

The actual return on plan assets was a loss of £37,997,000 (2017: gain of £75,725,000).

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

	2018 £'000	2017 £'000
Plan liabilities at 1 January	883,622	935,031
Employer service cost	3,501	4,490
Interest cost	21,542	22,917
Employee contributions	216	204
Transfers into scheme	4,371	1,654
Augmentations:		
- guarantee shortfalls/matrix payments	305	323
Actuarial (gain)/loss	(36,447)	(44,655)
Benefits paid from plan assets	(40,394)	(35,950)
Plan change/past service cost	11,259	-
Curtailments	(392)	(392)
Plan liabilities at 31 December	847,583	883,622

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

15a. Dow Services UK Pension Plan (continued)

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

	2018 £'000	2017 £'000
Fair value of assets at 1 January	876,230	800,803
Interest income	21,685	20,016
Actuarial (loss)/gain	(59,682)	55,710
Employer contributions including expenses	21,298	34,209
Employee contributions	216	204
Transfers into scheme	4,371	1,654
Augmentations:		
- guarantee shortfalls/matrix payments	305	323
Benefits paid	(40,394)	(35,950)
Administrative expenses paid	(1,150)	(739)
Fair value of assets at 31 December	<u>822,879</u>	<u>876,230</u>

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

	2018 £'000	2017 £'000
Charged to operating profit:		
Current service costs	3,501	4,490
Pension administration costs	1,150	739
Curtailment gain	(392)	(392)
Past service cost	11,259	-
Total charged to operating profit	<u>15,518</u>	<u>4,837</u>
Net interest on net defined benefit liability	<u>(143)</u>	<u>2,901</u>
Recognised in profit and loss	<u>15,375</u>	<u>7,738</u>
Loss/(gain) recognised in other comprehensive income	<u>23,235</u>	<u>(100,364)</u>
Total debit/(credit) relating to defined benefit pension scheme	<u>38,610</u>	<u>(92,626)</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

15a. Dow Services UK Pension Plan (continued)

History of experience gains and losses:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Asset experience					
Asset (loss)/gain during year	(59,682)	55,709	78,721	(10,848)	47,603
Percentage of scheme assets	(7.3%)	6.4%	9.8%	(1.6%)	7.0%
Liability experience					
Liability gain during year	(461)	(13,393)	(4,367)	(8,756)	(45,116)
Percentage of scheme liabilities	(0.1%)	(1.5%)	(0.5%)	(1.2%)	(6.0%)
Liability assumptions					
Liability (gain)/loss during year	(35,986)	(31,262)	200,506	(13,683)	67,424
Percentage of scheme liabilities	(4.2%)	(3.5%)	21.4%	(1.8%)	8.9%
Deficit in the plan					
Actuarial value of plan liabilities	(847,583)	(883,622)	(935,031)	(740,900)	(756,649)
Fair value of assets	822,879	876,230	800,803	693,710	684,882
Deficit in the plan	<u>(24,704)</u>	<u>(7,392)</u>	<u>(134,228)</u>	<u>(47,190)</u>	<u>(71,767)</u>

Defined contributions

The company also operates a defined contribution scheme, for which the pension cost charge for the year amounted to £545,915 (2017: £1,075,113).

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

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:

	2018 %	2017 %
Price inflation	3.40	3.40
Expected rate of increase in pay	3.40	3.40
Expected rate of increase of pensions for in-payment benefits (RPI max 5%)	3.10	3.10
Expected rate of increase for deferred pensioners (pre2009 pension)	2.40	2.40
Discount rate	2.75	2.50

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 2017 with CMI improvement rates subject to a long-term improvement rate of 1.75% 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	23.0	23.5
65 in 15 years	24.0	24.6

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

	2018 £'000	2017 £'000
Net interest on net defined benefit liability	192	209
Recognised in profit and loss	192	209
Recognised in other comprehensive income	(1,519)	(557)
Total credit relating to defined benefit pension scheme	(1,327)	(348)

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

15b. Unfunded retirement benefit arrangements (continued)

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

	2018 £'000	2017 £'000
Liability in the plan at beginning of year	(7,845)	(8,516)
Net interest on net defined benefit liability	(190)	(209)
Benefits paid directly by the Company	305	323
Actuarial gain	1,519	557
Liability in the plan at end of year	<u>(6,211)</u>	<u>(7,845)</u>

History of experience gains and losses:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Liability experience:					
Liability gain during year	(1,456)	(528)	(310)	(1,710)	179
Percentage scheme liabilities	(23.4%)	(6.7%)	(3.6%)	(20.5%)	1.8%
Liability assumptions:					
Liability loss during year	(63)	(29)	203	(12)	250
Percentage of scheme liabilities	(1.0%)	(0.4%)	2.4%	(0.1%)	2.5%
Deficit in the plan:					
Actuarial value of plan liabilities	(6,211)	(7,845)	(8,516)	(8,360)	(10,082)
Fair value of assets	-	-	-	-	-
Deficit in the plan	<u>(6,211)</u>	<u>(7,845)</u>	<u>(8,516)</u>	<u>(8,360)</u>	<u>(10,082)</u>

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Notes to the financial statements (continued) For the year ended 31 December 2018

15c. Rohm and Haas Retirement Plan

The Rohm and Haas Retirement Plan was fully bought out with an insurer in August 2018. This transaction is reflected as a settlement in the disclosures, with no remaining assets and liabilities in the plan as at 31 December 2018.

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 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 2018.

The Plan consists of deferred pensioners and pensioners only.

The major assumptions used were:

	2018 %	2017 %
Expected price inflation	-	3.40
Expected rate of increase in pay	-	3.40
Expected rate of increase of pensions in payment	-	3.10
Expected rate of increase for deferred pensioners	-	2.40
Discount rate	-	2.50

The assets in the scheme were:

	Rohm and Haas Retirement Plan	
	2018	2017
	Allocation percentage	Allocation percentage
	£'000	£'000
Government bonds	-	96.76%
Cash/Other	-	3.24%
Total fair value of assets	-	2,905
Present value of scheme liabilities	-	(2,812)
Surplus in the scheme	-	93
Effect of asset limit	-	(93)
Pension liability	-	-

The actual return on plan assets was a loss of £152,000 (2017: gain of £131,000).

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

15c. Rohm and Haas Retirement Plan (continued)

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

	2018 £'000	2017 £'000
Plan liabilities at 1 January	2,812	2,859
Interest cost	41	71
Actuarial gain	(10)	(82)
Benefits paid from plan assets	(3,793)	(36)
Settlements	950	-
	<u>-</u>	<u>-</u>
Plan liabilities at 31 December	<u>-</u>	<u>2,812</u>

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

	2018 £'000	2017 £'000
Fair value of assets at 1 January	2,905	2,916
Interest income	42	71
Actuarial (loss)/gain	(194)	60
Employer contributions	1,303	64
Benefits paid	(3,793)	(36)
Other costs	(263)	(170)
	<u>-</u>	<u>-</u>
Fair value of assets at 31 December	<u>-</u>	<u>2,905</u>

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

	2018 £'000	2017 £'000
Net interest credit on net defined benefit liability	(1)	-
Pension administration costs	263	170
	<u>262</u>	<u>170</u>
Recognised in profit and loss	262	170
Recognised in other comprehensive income	91	(106)
	<u>353</u>	<u>64</u>
Total cost relating to defined benefit pension scheme	<u>353</u>	<u>64</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

15c. Rohm and Haas Retirement Plan (continued)

History of experience gains and losses:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Asset experience:					
Asset (gain)/loss during year	194	(60)	(596)	204	(311)
Percentage of scheme assets	-	(2.1%)	(20.4%)	8.7%	(13.0%)
Liability experience:					
Liability loss/(gain) during year	-	33	126	96	90
Percentage of scheme liabilities	-	1.2%	4.4%	4.4%	4.2%
Liability assumptions:					
Liability (gain)/loss over year	(10)	(115)	647	(36)	140
Percentage of scheme liabilities	-	(4.1%)	22.6%	(1.7%)	6.5%
Surplus/(deficit) in the plan:					
Actuarial value of plan liabilities	-	(2,812)	(2,859)	(2,169)	(2,157)
Fair value of assets	-	2,905	2,916	2,336	2,387
Effect of asset limit	-	(93)	(57)	(167)	(230)
(Deficit)/surplus in the plan	-	-	-	-	-

There will be no contributions paid to the scheme by the employer during the year ending 31 December 2019 as the plan has been fully bought out.

The plan assets and the plan liabilities are zero at the end of 2018 resulting in no surplus or deficit (2017: surplus of £93,000).

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.

17. Operating lease commitments

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

	2018 £'000	2017 £'000
Within one year	84	323
Within two to five years	98	154
	<u>182</u>	<u>477</u>

Dow Chemical Services UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

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 Inc. Group, provided that any subsidiary which is a party to the transaction is wholly owned by Dow Inc.

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 ended 31 March 2019 for the amount of £196,114 which is recharged by the pension plans to the Company.

19. Subsequent events

On 1 April 2019, Dow Agrosciences Limited left the Dow Chemical Services UK Pension Plan. This exit triggered an obligation for Dow Agrosciences Limited to provide cash to the Company, as the sponsor of the pension plan, of an amount equal to their share of the deficit existing at the time of exit under the terms of the Pension Funding Agreement between the parties. The liability was estimated at £20,013,000. Following these payments, the Company has assumed all future funding obligations for pensions to be provided to former employees of Dow Agrosciences Limited.

20. Ultimate parent company and controlling entity

In the opinion of the directors the ultimate parent company and controlling entity is Dow Inc, 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:

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

Copies of Dow Inc's consolidated accounts can be obtained from this address.

The immediate parent company is Dow Chemical Company Limited, a company registered in England and Wales, whose registered office is Station Road, Birch Vale, High Peak, Derbyshire, United Kingdom, SK22 1BR.