Super sprint race weekend 2019 results

Junior Woman Day 1 Day 2 Day 3 Day 4 - Final Junior Male Day 1 Day 2 Day 3 Day 4 - Final Junior B - Final Youth Female Day 1 Day 2 Day 3 Day 4 - Final Youth Male Day 1 Day 2 Day 3 Day 3 - Final Rookies Rookies - Final Race Times / Splits To see individual race times please click here note: All results are online round to the nearest second. Official Timing records to the millisecond, which can account for a few seconds when everything is aggregated. 2019 RESULTS/POINTS SCORE Junior Female - Final Junior Male - Final Junior Female B - Final Standings Junior Male B - Final Standings Youth Women - Final Youth Male - Final 2018 RESULTS/SCORE Final Junior Female Final Junior Male Final Youth A Female Final Youth A Male Final Youth B Female Point Score Final Youth B Male Point Score 2017 RESULT/SCORE Under 23 Men Under 23 Female Junior Male Junior Female Youth A Male Youth A Female Youth B Male Youth B Female Home 2019 OTR SuperSprint Schedule & Results Stay In The Know Sign Up for Repco Supercars Championship Newsletter Latest information about COVID-19 and updates on our event Registration for the 2020 Chicago Triathlon SuperSprint is OPEN Saturday, August 29, 2020 Whether you're new to triathlons or just at speed , chicago triathlon SuperSprint is made to order. This race will take place on Saturday's race weekend, in conjunction with the Chicago Triathlon. Be prepared for race day! Check out the 2019 Athlete Guide for detailed schedules, course information and more. > See the 2019 SPORT GUIDE MOMENTIVE PERFORMANCE MATERIALS INC. MOVING POLYURETHANE ADDITIVES HEADQUARTERS TO CHINA, INCREASING GLOBAL PRODUCTION CAPACITY FROM China TO GERMANY TO BRAZIL, MPM makes investments in manufacturing, technology and personnel to meet growing demand WATERFORD, N.Y. (August 26, 2013) - Momentive Performance Materials Inc. (MPM or Company) today announces investments it has made to support its polyurethane additives product line. With increasing demand in the wide range of industries it serves, the company has added production capacity, technology resources and personnel to several locations around the world. Investments continue to be made in almost every part of the world, allowing the company to have an integrated global network to help with capacity, speed and service, as well as build close relationships with local customers to serve their specific needs, said Tony Lanchak, vice president of Urethane Additives (UA) division at MPM. China Fully committed to its older 50-year Niax* line of products, MPM moved its polyurethane additives headquarters to Pudong Shanghai. The new headquarters in Pudong Shanghai is an integrated website that includes the business unit's sales, marketing and technology for China. Other similar sites are located around the world and form the combined UA global business unit, which continues to stretch the boundaries of innovation, leading the way in polyurethane additive technological advances. Furthermore, the company continues to increase production capacity and expand the types of urethane additives produced at Nantong, all of which facilitate greater speed and supply to customers, especially those in the Pacific and Europe. Germany The company has also expanded its production facility in Leverkusen, Germany. The expansion is an investment for polyurethane additives product line as it increases production capacity and improves opportunities for both intermediate goods and finished goods. This investment is yet another step in shortening lead times and reducing the cost of shipping products across continents. Italy In early 2013, the company opened a new application development center (ADC) in Termoli, which can provide disc and disc additives solutions to customers' advanced technical problems that meet the needs of today's end users. AdCs are essential to the innovation pipeline, as they allow MPM to continuously transform scientific vision and advanced materials into competitive advantage and commercial success for their customers both locally and globally. India Company has expanded its breadth of products in Chennai, India, mainly with a focus on slab and rigid foam production, again adding expanding capabilities to another corner of the world and the global network. Brazil In Itatiba, Brazil, the company has added production capabilities that can specifically support the automotive industry, a critical need due to continued growth in this industry in Brazil and other emerging markets. With the ability to produce a wider range of products and a deeper mix of intermediates, the expansion at Itatiba provides more local production, as well as a shorter supply chain and improved service levels globally. The company will showcase new innovations to its polyurethane additives portfolio september 10-12 at PU China 2013 in Nanjing. For more information about the company's products and services, visit Momentive.com. About The Momentive Performance Materials Inc. is a global leader in silicones and advanced materials, with a 70-year legacy of being first to market with performance programs for large industries that support and improve everyday life. The company delivers science-based solutions by connecting customized technology platforms to opportunities for customers. Momentive Performance Materials Inc. is an indirect wholly owned subsidiary of Hexion Holdings LLC. About Momentive Hexion Holdings LLC (Momentive) is the ultimate parent company of Momentive Performance Materials Inc. and Hexion Inc. Momentive is a global leader in specialty chemicals and materials, with a wide range of advanced specialty products that help industry and consumer companies support and improve everyday life. The technology portfolio delivers tailored solutions to meet the diverse needs of its customers around the world. Instantiv was formed in October 2010 through the combination of indirectly owned Momentive Performance Materials Inc. and Hexion Specialty Chemicals Inc. The capital structures and legal unit structures of both Momentive Performance Materials Inc. and Hexion Inc. (formerly known as Hexion Specialty Chemicals, Inc.), and their respective subsidiaries and direct parent companies, remain separate. Momentive Performance Materials Inc. and Hexion Inc. reports separate financial and other reports with the Securities and Exchange Commission. Momentum is controlled by investment funds affiliated with Apollo Global Management, LLC. Further information about Instantive and its products is available www.momentive.com. Media Contacts: Trisha McGuire Strategic Marketing Communications Manager Momentive Performance Materials Inc. +1 704-992-4797 trisha.mcguire@momentive.com Investors: John Kompa Vice President, Investor Relations & Public Affairs Hexion Inc. +1 614-225-2223 john.kompa@momentive.com ### *Niax is a trademark of Momentive Performance Materials Inc. columbus--(BUSINESS WIRE)-November 6, 2020 --Hexion Inc. (Hexion or the Company) will host a teleconference to discuss third quarter 2020 results on Monday, November 9, 2020, at 9:00 a.m. Eastern Time. The Company will issue a press release announcing its financial results for the third quarter of 2020 ended September 30, 2020 before the opening of the market on September 9, 2020. 2020.Interested parties are requested to call in approximately 10 minutes before the call begins at the following number:American participants: (844) 492-6045 International participants: (574) 990-2716 Participant password: 3589528 United States SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-K ANNUAL REPORT PURSUANT TO SECURITIES EXCHANGE ACT § 13 or 15(d) OF 1934 For the fiscal year ended March 31, 2005 Commission File Number 1-71 HEXION SPECIALTY CHEMICALS, INC. (Exact name of registrant as specified in his charter) New Jersey 13-0511250 (State of Incorporation) (I.R.S. Employer Identification No.) 180 East Broad St. , Columbus, OH 43215 614-225-4000 (Address of head offices) (Registrant's telephone number) SECURITIES REGISTERED PURSUANT TO SECTION 12(b) : The title of each class Name of each exchange that registered No no securities registered pursuant to Section 12 (g) of the ACT: NONE Indicates by tick if the registrant is a well-known experienced issuer, as defined in the Securities Act Rule 405. Yes¨No x. If the registrant is not required to submit reports pursuant to section 13 or section 15 (d) of the Exchange Act. Yes x No¨. Indicate whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the previous 12 months, and (2) has been subject to such filing requirements for the last 90 days. Yes¨No x. Specify by check mark if the publication of criminal files pursuant to section 405 of Regulation S-K is not herein, and will not be contained, as far as registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any change in this form 10-K. x Specify by checking whether the registrant is a large accelerated file, an accelerated file or a non-accelerated file. See definition of accelerated files and large accelerated files in Rule 12b-2 of the Exchange Act. Large accelerated files¨Accelerated files¨Non-accelerated files x Specify by checking whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes¨No x. 30 June 2005, the total market value of voting and non-voting common equity of Registrant held by non-affiliated companies was zero. Number of shares in common shares, parsing $0.01 per share, outstanding as of closing of the business on March 1, 2006: 82,629,906 Documents incorporated by reference. No table of contents HEXION SPECIALTY CHEMICALS, INC. INDEX PART I Case 1 – Business 3 Item 1A – Risk Factors 20 Item 1B – Unsolved Staff Comments 35 Case 2 – Features 35 Case 3 – Lawsuit 37 Case 4 – Submission of cases to a vote of security holders 39 PART II Case 5 – Market for Registrant's common equity, Related shareholder cases and issuer purchase of equity securities 39 item 6 - Selected financial data 39 Point 7 - Management's discussion and analysis of financial condition and results of operations 40 item 7A – Quantitative and qualitative disclosures about market risk 69 points 8 - accounting and additional data 70 Hexion specialty chemicals, Consolidated financial statements consolidated accounts, year end 31.12.2005, 2004 and 2003 71 Consolidated balance sheets, 31st, 2005, 2004 and 2003 74 Consolidated accounts for share and other shareholder (Deficit) Years ended 31 2005, 2004 and 2003 75 Notes to the Consolidated Financial Statements 76 Reports from independent registered public accounting firms 131 case 9 - Changes in and disagreement with accountants on accounting and financial disclosure 134 point 9A - Controls and procedures 134 Point 9B - Other information 134 PART III Case 10 - Directors and CEOs of Registrant 134 Item 11 - Executive Compensation 137 Case 12 - Security ownership of certain beneficial owners and management and related shareholder cases 144 item 13 - Certain relationships and related transactions 145 item 14 - Principal accounting fees and services 148 PART IV Article 15 - Exhibitions and financial statements schedules 149 Signatures 159 2 Table of Contents PART I (dollars in millions , excluding per share data) Overview Hexion Specialty Chemicals, Inc. (which can be called us, us, our, Hexion or company) is the world's largest manufacturer of thermoset resins, or thermos. Thermosets are a ingredient for almost all paints, coatings, adhesives and other adhesives produced for consumer or industrial use. We are focused on providing a wide range of thermal sets and associated technologies, with leading market positions in all key markets served. Our breadth of related products brings us significant benefits across our operations, technologies and commercial service organizations, while our scale gives us significant

efficiency in our fixed and variable cost structure so that we can compete effectively throughout the value chain. In areas where there is an advantage, we are able to internally produce strategic raw materials, which gives us a lower cost operating structure and security of supply. Our value-added, technical service-oriented business model enables us to effectively participate in high-end specialty markets, while our scale allows us to extract value from higher-volume applications. Thermosets are designed to meet the performance characteristics required for each end-use product. The type of thermos kit used and how it is formulated, applied and cured determines the main characteristics such as durability, shine, heat resistance, adhesion or strength of the end product. Hexion has the widest range of thermose resin technologies, with world-class research, application development and technical service features. Our thermal sets are sold under a number of reputable brand names, including BORDEN® (phenolic and amino resin), EPIKOTE® (epoxy resin), EPIKURE® (epoxy curatives), BAKELITE (phenolic and epoxy resins), LAWTER™ (ink) and CARDURA® (high-end car coating). The total global thermos resin market is about $34 billion in annual sales and includes products such as polyurethane, urea-formaldehyde, phenol-formaldehyde, unsaturated polyester, epochals and melamine-formaldehyde. The main product areas of the global thermos resin market that we focus on and where we have leading market positions are about $19 billion in annual sales, which exclude polyurethanes, unsaturated polyesters and furans/others. Our products are used in thousands of applications and sold to various markets, such as forest products, architectural and industrial paints, packaging, consumer products and automotive coatings, as well as higher growth markets, such as composites, UV-cured coatings and electric laminates. We have a history of product innovation and success in introducing new products to new markets. Our product innovation is evidenced by more than 1000 patents, most of which are related to the development of new products and processes for production. More specifically, in 2003, we developed and began marketing XRT®, a patent pending family of proppants made for the oilfield products end market, which generated approximately $30 million in net sales in 2005. In 2004, we developed and began to conduct customer trials with Archemis, a resin used to formulate alkyd paint. We are currently developing a family of custom resins tailored for the high-end lamination market. Our organizational structure is based on the products we offer and the markets we serve. During the fourth quarter of 2005, we changed our reportable segments to better reflect the transition from the previous organization of our pre-merger companies to our organizational structure in the latter half of 2005. The transition provides greater adjustment with the respective operating divisions and reporting segments. On December 31, 2005, our organizational structure consists of four operating divisions that are directly in line with our reportable segments: Epoxy and Phenolic resins, formaldehyde and forest products resins, coatings and inks and performance products. We began implementing further improvements to our operations departments in 2006 to connect similar products more closely, minimize divisional boundaries and improve our ability to serve common customers from legacy company relationships prior to the merger, which could lead to further improvements in our reporting segments. As of December 31, 2005, we had 86 production sites globally, producing many of our most important products locally in North America, Latin America, Europe and Asia. Through our worldwide network of strategically located production facilities, we serve more than 10,000 customers in over 100 countries. We believe our global scale brings us significant advantages over many of our competitors. In areas where there is an advantage, we are able to internally produce strategic raw materials, giving us a lower cost operating structure and 3 Table of Contents security. In other areas, where we can leverage our technical knowledge and market presence to capture extra value, we are integrated downstream into product formulations. Our position in certain additives, complementary materials and services enables us to leverage our core thermos kit technology and provide customers with a wide range of product solutions. As a result of our focus on innovation and the high level of technical service as a result of our Total Systems Approach, we have cultivated long-term customer relationships. Our global customers include leading companies in their respective industries, such as 3M, Ainsworth, Ashland Chemical, BASF, Bayer, DuPont, GE, Halliburton, Honeywell, Huntsman, Louisiana Pacific, Owens Corning, PPG Industries, Sumitomo, Sun Chemicals, Valspar and Weyerhaeuser. Industry Thermoset resin industry is a market of about $34 billion in annual revenue. Thermos resins include materials such as phenolic resins, epoxy resins, polyester resins, acrylic resins, alkyd resins and uretins. Thermos resins are used for a wide range of applications due to their superior adhesion and binding properties, as well as their heat resistance, protective and aesthetic properties, compared to other materials. The key product of the global thermos resin market that we focus on and where we have leading market positions have an estimated $19 billion in annual sales. The thermoset resin market has grown at an estimated annual rate of over 4% in volume over the past five years. We expect that certain segments of the thermos resin industry, including composites and UV resins, will grow significantly faster. Thermos is sold to the global coatings, composites and adhesive markets, which have combined annual revenue of over $100 billion. Thermos resins are generally considered specialty chemical products because they are mainly sold on the basis of performance, technical support, product innovation and customer service. Although the market for thermos resins has undergone consolidation in recent years, the thermos ettreser market remains fragmented with many small and medium-sized companies providing a relatively high level of customization and service to the end markets and with any small non-core divisions of large chemical conglomerates. The main factors contributing to success in the specialty chemicals market are (1) consistent delivery of high quality products, (2) beneficial process economy, (3) the ability to provide value to customers through both product attributes and strong technical service and (4) a presence in large and growing markets. We believe Hexion is the third largest North American-based specialty chemical company. 4 Table of Contents formation and history hexion hexion was formed on May 31, 2005 on the combination of three Apollo Management, L.P. (Apollo) controlled companies (Combinations): Resolution Performance Products, LLC (Resolution Performance), Borden Chemical, Inc. (Borden Chemical) and Resolution Specialty Materials, Inc. (Resolution Specialty Inc.). Apollo acquired Resolution Performance on November 14, 2000, formed Resolution Specialty Inc. and acquired the Specialty Resins and Monomers and Ink business of Eastman Chemical Company (Eastman) on August 2, 2004 through a subsidiary, Resolution Specialty Materials, LLC (Resolution Specialty), and acquired Borden Chemical on August 12, 2004. Along with the combinations, Borden Chemical changed its name to Hexion Specialty Chemicals, Inc., and BHI Acquisition LLC, Borden Chemical's parent, changed its name to Hexion LLC. In August 2004, a subsidiary of Apollo acquired all outstanding capital holdings of Borden Chemical (Borden Acquisition). The Borden acquisition, the related offering of second priority senior secured floating interest notes (Original floating interest notes) and 9% second priority senior secured notes (Fixed interest notes) and the related transactions are collectively called the Borden transaction. The issuance of the original floating interest notes and fixed-rate notes are discussed in the Liquidity and Capital Resources section of management's discussion and financial condition and results of operations (point 7). The Resolution Performance Transaction - November 14, 2000, Resolution Performance Holdings LLC, a subsidiary of Apollo, acquired control of Resolution Performance in a recapitalization transaction (Resolution Performance Transaction). Prior to the recapitalisation, Resolution Performance was a wholly owned subsidiary of Royal Dutch/Shell Group of Companies (Shell). On August 30, 2004, Resolution Specialty, a subsidiary of Apollo, acquired resins, inks and monomers (Resolution Specialty Acquisition) from Eastman Chemical Company (Eastman). The resolution specialties acquisition and related transactions are collectively called the Resolution Special Transaction. In April 2005, a subsidiary of Borden Chemical Baklite bought Aktiengesellschaft (Bakelite Acquisition). At the completion of Bakelite Acquisition, Bakelite Aktiengesellschaft (Bakelite) became an indirect, wholly owned subsidiary of Hexion Specialty Chemicals Canada, Inc. (Hexion Canada). The Bakelite acquisition was financed through a combination of available cash and loans under a bridge loan facility, which was refinanced with the proceeds from our second-priority senior secured floating interest notes due 20 June 2010. The Bakelite acquisition, repayment or assumption of certain of Bakelite's debt in connection with this, and the Bakelite financing are collectively referred to as the Bakelite transaction. The financing arrangements related to the Bakelite transaction are discussed in the Liquidity and Capital Resources section of management's discussion and analysis of financial condition and results of operations (item 7). On April 25, 2005, the company filed a registration statement, which is not yet effective, with the SEC for a proposed initial public offering (IPO) of its common stock. We have subsequently submitted six amendments to our registration statement from 2 May 2005 to 21 November 2005. 5 Table of Contents We have begun and will continue to integrate the four predecessor companies, including considering opportunities to consolidate our factories, leverage our commodity purchasing power, cross-ell to our broader customer base and implement programs to continue to lower our operating and indirect expenses. We have also consolidated the management teams and centralised corporate functions of the four companies under the direction of the current Hexion management. Business adjustment and reorganization. The company has implemented a number of plant consolidations and other business adjustment measures. These initiatives are designed to improve efficiency and focus resources on our core The associated restructuring fees primarily include employee closing, asset consolidation and associated environmental remediation costs and impairment costs for assets. The following is a brief overview of our significant business restructuring activities since 2001. In 2001, Borden Chemical undert mannered significant capital restructuring to eliminate future annual preferred dividend payments and recorded $126 million of business restructuring and impairment costs related primarily to the closures of its melamine crystal business, which we refer to as Melamine, and two forest products plants in the United States, restructuring of its workforce organization, reorganization of its head office and discontinuation of a construction construction project. The largest component of the 2001 tax is a write-down of $98 million of fixed assets, goodwill and spare parts in Melamine. This weakening was a result of Borden Chemical's strategic decision in late 2001 to sell or close Melamine and enter into a long-term contract agreement with a supplier for its future melamine crystal needs. In June 2003, we initiated our restructuring in 2003 to reduce operating costs and increase organisational efficiency. To achieve these goals, we reduced the workforce, streamlined processes, consolidated production processes, and reduced general and administrative expenses. Acquisitions and sales. We are a New Jersey company whose predecessors date back to 1899. The following is a summary of acquisitions and sales we have made over the past five years. In 2001, we merged our foundry resins and coatings companies with similar businesses of Delta-HA, Inc., or Delta, to form HA-International, or HAI, where at the time of its formation we had a 75% financial interest. The Hai Limited Liability Agreement entitles Delta to purchase between 3% and 5% (up to a maximum of 25%) of further financial interest in HAI every year from 2004 on stage. Under this provision, Delta in 2004 purchased an additional 5% interest, thereby reducing our financial interest to 70%. In March 2005, Delta bought an additional 5% interest, reducing our financial interest to 65%. Also in 2001, through a series of transactions with affiliates, Borden Chemical sold its Elmers consumer glue business for total revenue of $94 million. In the fourth quarter of 2003, we acquired Fentak in Australia and Malaysia, a manufacturer of specialty chemical products for engineered wood, lamination and paper impregnation markets. We also bought business and technology assets of SEACO, a domestic manufacturer of specialty adhesives. We completed these tuck-in acquisitions to expand our existing product lines. 6 Table of Contents Recent development Acquisition of decorative coatings and adhesives Business unit in Rhodia Group 31. acquisitions). The Rhodia business had a turnover of approximately $180 million in 2004, with 8 production facilities in Europe, Australia and Thailand. The acquisition was financed through a combination of available cash and existing lines of credit. Acquisition of Global Wax Compounds Business of Rohm and Haas 1. The purchase included Rohm and Haas' wax connections technology and product lines, manufacturing equipment and other business assets. The acquisition was financed through available cash. The acquisition of Global Ink and Adhesive Resins Business of Akzo Nobel 25. The company produces resins used to produce ink for commercial printing and packaging, digital ink for laser and photocopying printing, and pressure-sensitive adhesives used in tape and labeling applications. The business generated 2004 sales of about $200 million, and includes 10 manufacturing facilities in Europe, North America, Argentina, Asia and New Zealand. Closure will take place after the successful completion of normal government assessments and consultations with employee work councils, which we expect the closure to take place during the second quarter of 2006. The acquisition will be financed through a combination of available cash and existing lines of credit. The total purchase price for these three acquisitions is expected to be approximately $155 million. 7 Table of Contents Products and Market Applications Thermosets produced in each of our operating departments and segments are used in two primary applications: adhesive and structural and coating. Within each primary application, we operate in a diverse range of special chemical applications. Our primary products serving adhesive and structural applications include forest products resins, specialty phenolic resins, formaldehyde, epoxy resins, composite resin, phenolic encapsulated substrates and molding compounds. Our primary products serving coating applications include epoxy resins, polyester resins, alkyd resins, acrylic resins, ink resins and versaic acids and derivatives. Adhesive & Structural Products and Market Applications Formaldehyde Based Resins and Intermediates We are the leading manufacturer of formaldehyde-based resins for the forest industry in North America with a market share of 44% in volume and also have significant positions in Europe, Latin America and Australia. Our products are used in a wide range of applications in the construction, automotive, electronics and steel industries. We are also the world's largest manufacturer of phenolic resins, which are used in applications requiring extreme heat resistance and strength, such as brake pads, lacquer materials and oilfield applications. In addition, we are the world's largest manufacturer of an important building block chemical used in the production of thousands of products. We internally consume most of our formaldehyde production, giving us a significant competitive advantage versus our non-integrated competitors. Products Essential Uses Forest Products Resin Engineered Wood resins Softwood and hardwood plywood, OSB, laminated veneer lumber, thread lumber and wood fiber resins such as particleboard, medium density fiberboard and finished veneer lumber Special wood glue Laminated beams, structural and non-destructive finger joints, wood composite I-beams, cabinets, doors, windows, furniture, mold and mill and paper laminations Wax emulsions Affecting moisture resistance for panel boards 8 Table of contents Products Key Applications Speciality Phenolic resins Composites and electronic resins Fly components , brakes, ballistic applications, industrial grating, pipes, jet engine components, electric laminates, computer chip encapsulated and photolithography Automotive PF Resin's Acoustic insulation, engine filters, friction materials, interior components, Molded electric parts and collections Construction PF Resins, UF Resins, Ketone Formaldehyde and Melamine Colloid Decorative laminates, fiberglass insulation, floral foam, lamp cement for light bulbs, molded appliances and electrical parts, molding compounds, sandpaper, fiberglass mat, laminates, coatings, crosslinks for thermoplastic emulsions and special paper for wet strength Formaldehyde Applications de formalhydegrains and fungi , fabric softeners, sulphur extractors for oil and gas production, urea formaldehyde, melamine formaldehyde, phenol formaldehyde, MDI and other catalysts Epoxy Resins and Intermediates We are the world's largest supplier of epoxy resins. Epoxy resins consist of the basic building blocks of many types of materials, such as formulated composite resins and structural adhesives. Epoxy resins are often used in the automotive, aerospace and electronics industries due to their outstanding strength and durability. We also offer the industry a range of complementary products such as epoxy modifiers, curing agents, reactive diluents and special liquids. We are also a major manufacturer of bisphenol-A (BPA) and epichlorohydrin (ECH), important precursors in the production of epoxy resins. We internally consume most of our BPA and almost all of our ECH, giving us a significant competitive advantage versus our non-integrated competitors. Products Key applications Composites Automotive (structural interior), sports (ski, snowboard), boat construction, aviation, wind energy and industrial applications Civil Engineering Bridge and channel construction, concrete enhancement and corrosion protection Electrical molding Generators and liners, transformers, intermediate and high voltage switch gear components, post insulators, capacitors and car ignition coils Glue Automotive: hem fllange glue and panel reinforcement in carlange Construction: ceramic tiles, chemical plugs and marble Aerospace: metal and composite laminates Electronics: chip glue, soldering masks and electronic ink Electric laminates Industrial laminates: unclad sheets, pipes and molding, waterproofing of paper, cotton and glass filament and printed circuit boards 9 Table of contents Composite resins We are a leading manufacturer of resins used in composites. Composites are a fast-growing class of materials used in a wide variety of applications ranging from air frames and windmill blades to golf clubs. We supply epoxy resins to fabricators in aviation, sports equipment and pipe markets with a 50% market share in the United States and a 44% market share in Europe. Our leadership position in epoxy resins, together with our technology and service expertise, enables us to selectively integrate into customized formulations for special composites, such as turbine blades used in the wind power market. In addition to epoxy, we produce resins from unsaturated polyester (UPR), which are typically combined with fiberglass to produce cost-effective ready-made structural parts for applications ranging from boat hulls to recreational vehicles to bathroom introductions. Products Essential applications Reinforced epoxy unsaturated polyester and vinyl ester resin Marine, transport, construction, consumer products, recreational vehicles, spa, bath and shower surrounds Non-reinforced-unsaturated polyester and vinyl ester resins Cultivated marble, construction, gel coat and surface coating and automotive putty Phenolic Encapsulated Substrates We are a leading manufacturer of phenolic encapsulated sand and ceramic substrates used in oilfield services and lacquer applications. Our highly specialized compounds are designed to perform in extreme conditions, such as intense heat, high stress and corrosive environments, which characterize the oil and gas drilling and container industry. In the oilfield services industry, we have a 45% global market share in resin encapsulated proppants, which are used to increase the recovery rate for oil and gas and extend the well time. We are also the leading manufacturer by volume of foundry resins in North America with a 48% market share. Our foundry resin systems are used by large automotive and industrial companies for precision casting of engine blocks, transmissions, brake and drive and components. In addition to encapsulated substrates, our foundry resin business provides phenolic resin systems and auxiliary products used to produce finished metal castings. Products Essential Applications Oilfield Service Applications XRT® Resin Systems Patent Awaiting Resin Technology for Extreme Flowback and BreakAge Conductivity Conditions for Ceramics, Bauxite and Premium Sand Herdbar Resin Coated Sand, ACFRAC® SB Excel, Black Plus CR 4000 Systems That Increase Strength and Control Proppant Flowback on Medium Class Sand Systems Precursor Resin-Coated Sand PR 6000 System to Gently Crush Resistance high flow capacity with all grades of sand proppants Foundry Applications Refractory Coating General purpose products for ferrous and non-ferrous applications RESINS-SIGMACURE®, SIGMASET®, SUPER SET®, ALpHASET®, BETASET® and PLASTIFLAKE® A comprehensive range of synthetic resins for bonding of sand kernels and shapes in a variety of applications, including phenolic urettang Jews, phenolic uretins, furan and phenolic acid curing, ester hardened phenolic nobake resins, methyl format tempered phenolic cooling box resins and phenolic resins for shell process 10 Table of contents compounds We are the leading manufacturer of casting compounds in Europe , with an estimated market share of 64%. We formulate and produce a wide range of phenolic, polyester and epoxy compounds used to produce components that require heat stability, electrical insulation, fire resistance and durability. Applications range from automotive sub-cabinet components to appliance knobs and cookware handles. Products Key applications Phenolic, Epoxy, Vinylester Automotive ashtray and under hood components, heat-resistant knobs and bases, switches and switch components and pot handles Long fiber reinforced MC High load, dimensionally stable sub cabinet parts and commutators PBT, PET, PC, PC ABS, PA6 and PA66 Connectors, switches, coils, wheel covers, power tools internal components and bodies Coating Products and market applications Epoxy Coating Resins In addition to the losing areas mentioned earlier , epoxy resins are used for a variety of high-end coating applications that require superior strength and durability of epoxy. Examples are protective coatings for industrial and domestic flooring, pipes, marine and construction applications, powder coating and car painting. Where it is beneficial, we utilize our resin and additives position to deliver custom resins for specialty coating formulas. Products Key applications Electric coat (LER, SER, BPA) Automotive, general industry (heating radiators), appliances Powder coating (SER, Performance products) Appliances (appliances), pipes (oil and gas transport), general industry (heating radiators, all types of metal objects) and car (interior parts and small components) Heat-cured coatings (LER, SER) Metal packaging, coiled steel for construction and general industrial Floor coverings (LER, Solutions, performance products) Chemically resistant, antistatic and powerful floors in hospitals, chemical industry , electronics workshops, retail areas and warehouses Ambient Cured Coatings (LER, SER, Solutions, Performance Products) Marine (new build and maintenance), containers and large steel structures (bridges, pipes, plants and offshore equipment) Waterborne coatings Replace solvent-borne products in both heat-cured and ambient hardened applications Polyester Resin We are a leading supplier of polyester coating resins in North America with a market share of and is also a major manufacturer in Europe with a powder coating market share of 10%. We offer customized polyester resins, both liquid and powder, to customers for use in industrial coatings that require specific properties such as shine and color retention, resistance to corrosion and flexibility. Polyester coatings are usually used in transport, automotive, machinery, appliances and office furniture in metal. Our polyester resin business shares an integrated production platform with our alkyd business, enabling flexible sourcing, plant balancing and economies of scale. 11 Table of Contents Products Essential uses Powder Polyesters Outdoor durable systems for architectural window frames, facades and transport; Indoor systems for household appliances and general industrial applications Liquid Polyesters and polyester dispersions Automotive, coil and exterior can coating applications Alkyd Resins We share leading position in alkyd resins in North America with a market share of 31% and is a major manufacturer in Europe, especially in Scandinavia and Italy. We offer alkyd resins to customers for use in the manufacture of professional grade paints and coatings. Alkyd resins are formulated and constructed according to customer specifications and can be modified with other raw materials to improve performance. Applications include industrial coatings (e.g. protective coatings used on machines, metal coil, equipment, tools and furniture), special coatings (e.g. motorway strip paint, car refining coatings and industrial maintenance coatings) and decorative paints (e.g. house painting and cover stains). Our alkyd resin business shares an integrated production platform with our polyester resin business, enabling flexible sourcing, plant balancing and economies of scale. Products Essential applications Alkyd and Alkyd Emulsions Architectural markets: Exterior enamels, interior semi-gloss and trim, interior/ exterior stains and wood primers Industrial Markets: Metal primers, general metal, transportation, machinery and equipment, industrial maintenance and marine, metal container and wooden furniture Alkyd Copolymer Architectural markets: Stain blocking primer, Grinding Sealing and Aerosol Industrial Markets: Machinery and Equipment, Transportation, General Metal and Gypsy Coatings Urethane Modified Architectural Markets: Clear Varnishes (DIY) and Floor Covering Industrial Markets: Wood Coating Silicone Alkyd Industrial Markets: Industrial Maintenance and Marine and Heat Resistant Coating Acrylic Resins We are a supplier of acrylic resins (solvent and water based) in North America and Europe. Acrylic resins are used for interior trim paint and exterior applications where weathering protection, color and shine retention are essential. In addition, we produce a wide range of specialty acrylic resins for marine and maintenance paints and car top coats. We are also a low-cost manufacturer of acrylicmonin, the key raw for our acrylic resins. This ability to internally produce important raw materials gives us a competitive cost advantage over our competitors and ensures adequate supply. 12 Table of Contents Products Key Applications Acrylic Dispersions Architectural markets: Interior semi-gloss and high gloss, interior and exterior paints, stains and sealers, plaster primer, masonry coatings and general purpose Industrial Markets: Automotive OEM, packaging, general metal, wood, plastic coating, traffic labeling paints, industrial maintenance and transportation, adhesives and textiles Solutions Acrylic Architectural markets: Aerosol, masonry and tiles sealer Industrial Markets: Transportation, packaging, aerosol, automotive OEM, apparatus, industrial maintenance and marine and road marking Ink resins and additives We are the world's largest manufacturer of ink resin and associated products, with a market share of 15%. Ink resins are used to use ink on a variety of different substrates, including paper, cardboard, metal wrap and plastic. We offer resins, liquid components and additives, which are mainly sold under the globally recognized Lawter™ the brand name of customers formulating ink for a variety of substrates and printing processes. Our products offer such performance improvements as durability, printing capability, substrate application, drying speed and safety. Typical end-use applications include brochures, newspapers, magazines, packed lunches, drinks and flexible packaging. We are also a supplier of formulated UV cure coatings and inks. Our proprietary technology has enabled us to gain a leading position in the global fiber optic market. Products Key applications Resins Graphic art, commercial, publishing and packaging Vehicles and wax Sheet-fed, heat sets, sheen and humidification vehicles and wax products Liquid Inks Polymer films, paper and wave stick versatic acids and derivatives We are the world's largest manufacturer of versatic acids and derivatives, with a market share of 76%. Versa acids and derivatives are specialty monomers that provide significant performance benefits to finished coatings, including superior adhesion, flexibility, ease of use and other high performance properties. The products include basic versaic acids and derivatives sold under versatic, VEOVA® and CARDURA® names. Versaic acid applications include decorative, automotive and protective coatings as well as other uses, such as pharmaceuticals and personal care products. We produce versaic acids and derivatives using our integrated production facilities and our internally produced ECH. Products Key applications Cardura Automotive repair / refinishing, automotive OEM and industrial coating Versatic Chemical building block, peroxides, pharmaceuticals and agrochemicals VeoVa Architectural coatings and construction 13 Table of Contents Segments Products and market applications discussion above provided information organized around our primary (adhesives and structural and coatings), while our organizational structure is based on the thermos products we offer and the markets we serve. During the fourth quarter of 2005, we changed our reportable segments to better reflect the transition phase from the previous organization of our pre-merger companies to the company's organizational structure in the latter half of 2005. The transition provides greater adjustment with the respective operating divisions and reporting segments. As of December 31, 2005, our organizational structure consisted of four operating divisions that are directly in line with our reportable segments: Epoxy and Phenolic resins, Formaldehyde and forest products resins, coatings and inks, and performance products. A brief summary of the major products and primary applications of our operations departments, which were in line with the Company's reportable segments, are as follows: Epoxy and Phenolic resins 2005 Net sales $1,909 Major products: Epoxy resins and intermediate Molding compounds Versatic acids and derivatives Formaldehyde based resins and intermediates: • Specialty phenolic resin epoxy coating resin primary application: Adhesive & Structural adhesive and structural coating adhesive and structural coating Formaldehyde and forest products resin 2005 Net sale $ 1,005 281 Large products: Formaldehyde based resins and intermediates: • Formaldehyde applications • Forest products resin Primary Application: Adhesive & Structural Adhesive & Structural Coatings and Inks 2005 Net Sale $886 Major Products: Composite Resin Polyester Resin Acrylic Resin Alkyd Resin Ink Resins and Additives Primary Application: Adhesive & Structural Coatings Performance Products 2005 Net Sale $394 Major Products : Phenolic Encapsulated Substrates: • Oilfield Service Applications • Research Fellows Primary Application: Adhesive & Structural Adhesive & Structural 14 Table of Contents All historical segment information included herein has been reworked to match our current segment reporting. The changes in previously reported segment information are simply a reclassification of activity among the Company's segments, and they do not affect any of the Company's previously reported consolidated results. We began implementing further improvements to our operations departments in 2006 to connect similar products more closely, minimize divisional boundaries and improve our ability to serve common customers from legacy company relationships prior to the merger, which could lead to further improvements in our reporting segments. Marketing and distribution products are sold to industrial users worldwide through our direct sales force to larger customers and through third-party distributors to serve our smaller customers more cost-effectively. Our direct sales force, customer service and support network consists of 319 employees in the Americas, 202 employees in Europe/Africa/Middle East and 36 employees in Asia-Pacific. customer service and support networks are organized in important regional customer service centers. We have global account teams that focus on coordination for large global customers, including technical service, supply and commercial terms. Moreover, where operational and regulatory factors vary meaningfully from country to country, we organize locally. Competition We compete with a number of companies, including large global chemical companies and small specialty chemical companies, in each of our product lines. In addition, we face competition from a number of products that are potential replacements for formaldehyde-based resins. The most important factors for competition in our industry include technical service, breadth of product offerings, product innovation and price. Some of our competitors are larger, have large financial resources and have less debt than we do, and as a result may be better able to withstand changes in conditions throughout our industry related to prices or otherwise and the economy as a whole. We are able to compete with smaller niche specialty chemical companies due to our significant investment in research and development and our customer service model that provides for on-site value-added technical service for our customers. In addition, our size and scale provide us with significant efficiency in our cost structure. 15 Table of Contents We believe that no single company competes with us across all of our existing product lines. The following charts determine our main competitors by market application. Adhesive & Structural products and market application major products main competitors Forest products Resin Dynea International, Georgia-Pacific and Kronospan Specialty Phenolic Resins Dynea International, Occidental Petroleum, Schenectady, Ashland and PA Resins Formaldehyde Applications Dynea International and Georgia-Pacific Epoxy Resins and Intermediates Huntsman, Dow Chemical, Nan Ya and Formosa Plastics Group, Chun Chang Polymers and Thai Epoxy Resins Huntsman, Dow Chemical, Ashland, AOC, Reichhold and CCP/ Atofina Phenolic Encapsulated Substrates Ashland, Carbo Ceramics, Santrol and Dynea International Molding Compounds Dynea International, FAR and Sumitomo Coating Products and Market Application Store Products Main Competitors Epoxy Coatings Re Dow Chemical, Huntsman, Nan Ya and Formosa Plastics Group, Leuna and Kuk-do Polyester Resin DSM, Cytec, Cray Valley/CCP, Reichhold, Nuplex and EPS (owned by Valspar) Alkyd Resin Reichhold , CCP/Atofina/Cray Valley, DSM, Nuplex and EPS (owned by Valspar) Acrylic resins Rohm & Haas, BASF, Dow Chemical, Cognis and DSM (Neoresins) Ink resins and additives Mead Westvaco, Akzo Nobel, Arizona, Resinall, Arakawa and Harima Versatic Acids and Derivatives ExxonMobil and Tianjin Shield 16 Table of Contents Raw materials Raw material costs account for approximately 80% of our product costs. In 2005 we bought about $3 billion of raw The three largest raw materials used in our production processes are phenol, methanol and urea, which accounted for 49% of our total raw material expenditure. Most of the raw materials used in the production of our products are available from more than one source and are easily available in the open market. We use long-term purchase agreements for our primary and certain other raw materials to ensure the availability of adequate supplies. These agreements generally have periodic price adjustment mechanisms and do not have minimum annual purchase requirements. The smaller quantity materials that are easily sourced usually have long-term supply contracts as a basis for guaranteeing maximum supply reliability. The prices of our main feed products are generally driven by underlying petrochemical benchmark prices and energy costs. These raw materials are subject to price fluctuations. Although we seek to offset increases in commodity prices with increases in our product prices, we may not always be able to do so, and there may be periods when such product price increases are lagging behind commodity price increases. Customers In 2005, our largest customer accounted for 3% of our net sales and our top ten customers accounted for 18% of our net sales. Neither our business nor any of our reporting segments rely on a single customer or a particular customer group, whose losses will have a materially negative effect on such reporting group. Our primary customers are made up of manufacturers, and the demand for our products is generally not seasonal. Patents and Trademarks We own, license or have rights to over 1,000 patents, over 1,500 trademarks and various patent and trademark applications and technology licenses in our reporting groups worldwide, which are held for use or currently used in our business. Our main trademarks are BORDEN®, RESOLUTION®, EPIKOTE® Resins, EPON® Resins, EPIKURE® Herding Agents, EPI-REZ® Waterborne Resins, AQUAMAC®, DURAMAC®, POLYMAC®, ACRYLIMAC®, HELOXY® Modifiers, CARDURA® Glycidyl Ester, VEOVA® Monomers, VERSATIC acids, LAWTER™, McWhorter® and ERNST JAEGER®. We use BORDEN® in our business and license the trademark to third parties for use on non-chemical products. A majority of our patents are related to the development of new products and processes for production and use thereof, and expire at different times between 2006 and 2026. We renew our trademarks regularly. Bakelite owns a number of foreign registrations of the Bakelite brand, which it uses in its business and has licensed to a limited number of third parties on a non-exclusive basis. No individual patents or trademarks are considered material; However, our overall portfolios of patents and trademarks are valuable assets. Environmental regulations Our operations involve the use, handling, processing, storage, transport and disposal of hazardous materials and are subject to comprehensive environmental regulations on federal, state and international level and is exposed to the risk of environmental remediation or restoration requirements. Our production facilities require operating permits that can be renewed or changed. Violations of environmental laws or permits may result in restrictions on operating activities, significant fines, penalties, damages or other costs. In addition, statutes such as the federal comprehensive environmental response, compensation and liability law and comparable state and foreign laws impose strict, common and additional responsibilities for investigating and rectifying the consequences of emissions and other discharges of hazardous materials, substances and waste at current and former facilities, and at third-party landfill sites. Other laws allow individuals to seek the recovery of damages for alleged personal injury or property damage due to exposure to hazardous substances and conditions at our facilities or to dangerous substances otherwise owned, sold or controlled by us. Therefore, despite our commitment to environmental management, environmental and health and safety obligations may apply in the future, and such obligations may result in a materially negative effect on our business, financial condition, results of operations or cash flows. 17 Table of Contents for environmental issues are registered in accordance with the guidelines in the AICPA Statement on Position 96-1, Environmental Remediation Obligations, when it is likely that a liability has been incurred and how much responsibility can reasonably be estimated. While our environmental policies and practices are designed to ensure compliance with international, federal and state laws and environmental regulations, future development and increasingly strict regulation may require us to make further unforeseen environmental spending. In addition, our previous operations, including ink, wall coverings, film, phosphate mining and processing, thermoplastic, food and dairy activities, can give rise to requirements related to our period of ownership. We cannot assure you that, as a result of past, current or future operations, it will have no future impact on us related to new regulations or additional environmental remediation or restoration obligations. We have adopted and implemented health, safety and environmental policies, which include systems and procedures for environmental emissions, waste generation, process safety management, handling, storage and disposal of hazardous substances, worker health and safety requirements, contingency planning and response and product management. We expect to incur future costs for capital improvements and general compliance with environmental laws, including costs to obtain, maintain and repair pollution control equipment. In 2005, we incurred related capital expenditures of $18 million. We estimate that $27 million will be spent on capital expenditures in environmental controls at our facilities. This estimate is based on current regulations and other requirements, but it is possible that significant capital expenditures in addition to those expected may be required if the regulations or other requirements are changed. Industrial regulatory conditions Production and marketing of chemical substances are regulated by national and international laws. Although almost all countries have their own legal procedure for registration and import, laws and regulations in the European Union, the United States and China are most significant to our business, including the European inventory of existing commercial chemical substances, the European list of heralded chemical substances and the United States Toxic Substances Control Act inventory. Chemicals that are on one or more of the above lists can usually be registered and imported without further testing in other countries, although there may be several administrative obstacles. We are also actively seeking approvals from the US Food and Drug Administration for certain specialty chemicals produced by us, mainly where we believe that these specialty chemicals will or may be used by our customers in the production of products that will come into direct or indirect contact with food. Research and development Our research and development activities are aimed at developing and improving products, processes, applications and technologies to maintain our position as the world's largest producer of thermos resins. We focus on: • developing new or improved applications based on our existing product line and identifying customer needs; • develop new resin products and applications for customers to improve their competitive advantage and profitability; • provide first-class technical service for customers of specialty products; • provide technical support for production sites and assist in plant optimization; • ensure that our products are manufactured in accordance with our global environmental, health and safety policies and goals; • develop lower cost production processes globally; and • expand production capacity. 18 Table of Contents In 2005, 2004 and 2003, our research and development and technical services expenses were $62 million, $30 million and $16 million, respectively. Development and marketing of new products is carried out by our reporting groups and is integrated with quality control for existing product lines. We emphasize a customer-driven, systems and solutions approach in discovering new applications and processes and providing excellent customer service through our technical staff. Through regular direct contact with our key customers, our research and development personnel can become aware of developing customer needs in advance and can anticipate their requirements in the planning of customer applications. We also focus on continuous improvement of asset yields, fixed costs and capacity. These continuously integrated is characterized by exceptional product consistency, low-cost economy and high quality resin that is appreciated by the customer for demanding applications. We estimate that this process gives us a sustainable cost advantage over conventional batch technology, which is the traditional method of producing certain resins. We have over 600 scientists and technicians all over the world. We conduct research and development activities primarily at our facilities in Carpentersville, Illinois; Louisville, Kentucky; Cincinnati, Ohio; Springfield, Oregon; Roebuck, South Carolina; Houston, Texas; Nice prairie, Wisconsin; Kallo, Belgium; Louvian-la-Neuve, Belgium; Tianjin, China; Sokolov, Czech Republic; Duisburg, Germany; Iserlohn, Germany; Sant' Albano, Italy; Pernis, Netherlands and Barry, South Wales, United Kingdom. Our research and development facilities include a wide range of synthesis, testing and formulation of equipment, and small-scale versions of customer production processes for application development and demonstration. In addition, we have an agreement with a not-for-profit research centre to assist in certain research projects and new product development initiatives. Employees on 31 December 2005 we had approximately 7000 employees. Approximately 46% of our employees are members of a trade union or represented by labor councils that have collective bargaining agreements. Most of our European employees are represented by work councils. The relationship with our union and non-union employees is generally satisfactory. Where you can find more information Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and changes to these reports are available for free to the

public through our internet website on www.hexion.com under Investor Relations - SEC Filings. 19 Table of Contents Any of the following risks may materially affect our business, financial condition or results of operations and prospects materially. Borden Chemical, Resolution Performance, Resolution Specialty and Bakelite have a limited history of working together as a single company. Should we not integrate the operations of Borden Chemical, Resolution Performance, Resolution Specialty and Bakelite and achieve cost savings, our results of operations and profitability will be adversely affected. We may not succeed in integrating Borden Chemical, Resolution Performance, Resolution Specialty and Bakelite, and the combined company cannot perform as we expect or achieve the net cost savings we expect. An important element of our business strategy is the improvement of our operational efficiency and a reduction in our operating costs. Management is currently targeting $250 million in synergies from the Hexion formation of which $125 million of cost savings are specifically identified. We achieved cost savings of $20 million in 2005. We expect to incur one-time costs of $75 million in connection with these synergies. A number of factors may result in us not achieving the benefits of the cost saving plan, or may cause harm to our business. For example, some of our European operations use IT systems with limited system support. If we are unable to integrate these systems with our more advanced IT systems, our ability to effectively operate in certain European countries may be reduced. In addition, the impact of Hurricanes Katrina and Rita on our operations, along with future hurricanes and natural disasters, could affect our ability to achieve our cost savings plan in the short term. Other factors include: • delays in the expected time of activities related to our cost saving plan; • higher than expected or unexpected costs to carry out the plan and to run the business; • insufficient resources to carry out the plan and run the business; • our inability to optimize production processes between the companies; • our inability to achieve lower commodity prices; • our inability to exploit new geographical distribution channels; • our inability to reduce corporate and administrative expenses; and • our inability to identify an additional $125 million of cost savings in accordance with our synergy target. As a result, we cannot achieve our expected cost savings in the time expected, or at all. If so, our results of operations and profitability will be negatively impaired. The Hexion formation can be disruptive and may cause the combined business to fail to meet our expectations. The continuous process of integrating the operation of Borden Chemical, Resolution Performance, Resolution Specialty and Bakelite can continue to require a disproportionate amount of resources and management attention. Our future operations and cash flows will largely depend on our ability to operate Hexion efficiently, achieve the strategic operational goals of our business and realize significant cost savings and synergies. Our management team may encounter unforeseen difficulties in managing the integration of our four businesses. In order to combine and operate our businesses, our management team 20 table of contents must continue to focus on realising expected synergies and cost savings on time while maintaining the efficiency of our business. Any significant diversion of management's attention or difficulty in running the combined business can affect our sales and ability to achieve operational, financial and strategic goals. For example, we expect to devote significant management attention to implementing financial reporting and other systems that will allow us to use a shared service business model (for certain processes) together with a single enterprise-wide SAP® system. Our historical and proma financial information may not reflect what our actual results of operations and financial condition would have if we had been a combined combined for the periods presented, and these results may therefore not be a sign of our future operating profit. The historical financial information included in this prospectus is constructed by the separate financial statements of Resolution Performance, Borden Chemical and Resolution Specialty for periods prior to the completion of the Hexion formation. In addition, Bakelite has historically prepared its financial statements in accordance with German GAAP, which differ in certain respects of US GAAP. The Bakelite accounting presentation included in this prospectus has been converted from the local GAAP by Bakelite and its subsidiaries to US GAAP. The financial proma information presented in this prospectus is based in part on certain assumptions about the hexion formation that we believe to be reasonable. Our assumptions may prove to be inaccurate over time. Misk, the historical and proma financial information included in this prospectus may not reflect what our results of operations and financial condition would have been if we had been a combined entity in the periods presented, or what our results of operations and financial condition will be in the future. Our limited operational history and the challenge of integrating previously independent businesses make it difficult to evaluate our business and our future economic prospects. Our potential for future success and operating performance must be assessed in light of the risks, uncertainties, expenses and difficulties typically encountered by newly organized or combined companies. Although EBITDA is taken from the financial statements (pro forma or historically, as may be the case) by Hexion, the calculation of adjusted EBITDA contains a number of estimates and assumptions that may prove to be incorrect. For example, synergies assume that we can achieve improved raw material pricing, determination of legacy business expenses, net includes an estimate of the cost of replacement services and business adjustment costs contain a number of assumptions about excess costs. Although hexion management believes these estimates and assumptions are reasonable and correct and are consistent with the definition of adjusted EBITDA in our indentations, investors should not place undue confidence in Adjusted EBITDA as an indicator of current and future results. Our significant debt may affect our ability to raise additional capital to finance our business, limit our ability to respond to changes in the economy or our industry, and prevent us from fulfilling our obligations under our existing or future debt. We are a highly leveraged company. As of December 31, 2005, we had $2.4 billion of outstanding debt. In fiscal 2006, our cash debt service is expected to be approximately $268 million (including $51 million of short-term debt maturity) based on current interest, of which $146 million represents debt service fixed-rate obligations. Our ability to generate sufficient cash flow from operations to make planned payments on our debt depends on a number of financial, competitive and business factors, many of which are beyond our control. Our business cannot generate sufficient cash flow from operations to meet our debt service and other obligations, and expected cost savings and operational improvements cannot be realized on schedule, or at all. If we are unable to meet our expenses and debt obligations, we may need to refinance all or part of our debt on or before maturity, sell assets or increase equity. We may not be able to refinance any of our liabilities, sell assets or increase equity on commercially reasonable terms or at all, which may cause us to default on our obligations and impair our liquidity. 21 Table of Contents Our significant debt may have important consequences for you, including the following: • it may limit our ability to borrow money or sell shares to our working capital, capital expenditures, dividend payments, debt service requirements, strategic initiatives or other purposes; • it may limit our flexibility in the planning of, or react to, changes in our business or business; • it may increase the amount of our interest expenses, because some of our loans are at variable interest rates, which, if the interest rate increases, can result in higher interest costs; • we are more highly utilized than any of our competitors, which can put us at a competitive disadvantage; • it can make us more vulnerable to recessions in our business or economy; • a significant portion of the cash flow from operations will be dedicated to the repayment of our debt and will not be available for other purposes; • it may restrict us from making strategic acquisitions, introducing new technologies or exploiting business opportunities; • it may make it harder for us to meet our obligations with respect to our existing debt; and • it may limit, along with the financial and other restrictive covenants in our debt, including our ability to borrow additional funds or dispose of assets. Our variable rate debt exposes us to interest rate risk, which can cause our annual debt obligations to increase significantly. Some of our debts, including debt under our floating interest notes and loans under our senior secured credit facilities, are at variable interest rates and expose us to interest rate risk. See Description of certain debt. If interest rates increase, our debt obligations on the variable interest rate debt will increase even if the loan amount remained the same. Assuming that the amount of variable rate debt remains the same, an increase of 1% in the interest to be paid on our variable rate debt will increase our accounting 2006 estimated debt requirements by $8 million. In a significant way, an interest rate increase from the current level could cause our annual debt obligations to increase significantly. Despite our significant debt, we may still be able to incur significantly more debt. This may intensify the risk described above. The terms of the indentations that govern our notes, our senior secured credit facilities and the instruments that govern our second debt and series A Preferred Stock contain restrictions on our ability to incur additional debt. These restrictions are subject to a number of important qualifications and exemptions, and the debt incurred in accordance with these restrictions may be significant. Therefore, we can incur significant additional debt in the future. As of December 31, 2005, we had $221 million available for additional loans under our senior secured credit facilities, including subfacility for credit letters, and the covenants under our debt agreements would allow us to borrow a significant amount of additional debt. The more we are exploited, the more we, and in turn our security holders, are exposed to the risks described above below - Our significant debt may affect our ability to raise additional capital to finance our business, limit our ability to respond to changes in the economy or our industry and prevent us from fulfilling our obligations under our existing or future debt. 22 Table of Contents The terms of our senior secured credit facilities and our existing debt may limit our current and future business. Our senior secured credit facilities and our existing debt contain, and any future debt we incur, is likely to contain, a number of restrictive covenants that will impose significant operating and financial restrictions on our ability to, among other things, to: • incur or guarantee additional debt; • pay dividends and make other distributions to our shareholders; • create or incur certain liens; • make certain loans, acquisitions, capital expenditures or investments; • participate in the sale of assets and subsidiary holdings; • enter into sales/lease transactions; • enter into transactions with affiliates; • transfer all or substantially all of our assets or enter into merger or consolidation transactions; and • make capital expenditures. In addition, our senior secured credit facilities require us to maintain a maximum senior secured banking relationship. As a result of these covenants and this relationship, we are limited in the way we conduct our business, and we cannot engage in beneficial business activities or finance future operations or capital needs. Although we currently comply with all the terms of our outstanding debt, including the financial covenants contained therein, a decline in our business may result in us not complying with the financial or other covenants of our senior secured credit Failure to comply with the covenants of our senior secured credit facilities or our existing debt may result in default under the facilities or existing agreements. In the event of default under our senior secured credit facilities or our other debt, the lenders thereunder: • will not be required to lend any additional amount to us; • be able to choose to declare all outstanding loans, along with accrued and unpaid interest and fees, to be due and paid; • require us to use all our available money to repay these loans; or • prevent us from making payments on Serie A Preferred Stock. If the debt under our senior secured credit facilities or our other debt were to be accelerated, our assets may not be sufficient to repay such debt in full. See Description of certain debt. The demand for many of our products is cyclical, and we may experience long-term depressed market conditions for our products, which can reduce our net sales and operating margins. Many of our products are used in industries that are cyclical in nature, such as the new residential construction, automotive, oil and gas, chemicals and electronics industry. We sell our products to manufacturers in the industries that incorporate them into their own products. The sale to the construction industry is driven by trends in commercial and residential construction, housing construction and trends in housing repair and redevelopment. Consumer confidence, mortgage rates and income levels play a significant role in driving demand in the housing construction, repair and rebuilding sector. A decline in consumer confidence or an increase in mortgage rates or unemployment can lead to a decline in the construction industry, and in particular housing construction, repair and redevelopment. These and other similar negative developments can lead to a significant decrease in our net sales and operating margins. 23 Table of Contents Declines in one or more of the other businesses that use our products may adversely affect our net sales and operating margins. Many of our customers are in companies that are cyclical in nature and sensitive to changes in general economic conditions. In 2002, sales of Borden Chemical's oilfield products decreased by 29% as a result of reduced drilling activity. The demand for our products depends in part on general economic conditions, and a decrease in economic conditions in the industries served by our customers have, and may continue to have, a material negative effect on our business. An economic decline in one or more of the businesses or geographical regions in which we sell our products can lead to a significant decrease in our net sales and operating margins. We rely on raw materials in the production of our products, and cost fluctuations will increase our operating costs. Our manufacturing activities depend on obtaining sufficient supplies of raw materials on time. Loss of an important source of supply or a delay in shipments can have a negative effect on our business. In addition, several of our raw materials are transported at different plants through a pipeline from one supplier. If we couldn't receive these raw materials through these pipeline schemes, we might not be able to get them from other suppliers at competitive prices or on time. Over the past three years, the prices of these materials have been volatile. We are exposed to price risks associated with these commodity purchases. The availability and prices of raw materials may be subject to a shortening or change due to, among other things, new laws or regulations, suppliers' grants to other buyers, interruptions in the production of suppliers, changes in exchange rates, cost components of raw materials and worldwide price levels. In addition, we may be exposed to rising commodity prices and fuel taxes due to hurricanes, such as Hurricanes Katrina and Rita in 2005, and other natural disasters and associated damage to our suppliers. In 2005, about $27 million of incremental expenses related to Hurricanes Katrina and Rita negatively affected our results. Our ability to produce products depends on our ability to achieve an adequate supply of raw materials on time. Moreover, if the cost of raw materials increases significantly and we fail to offset the increased costs of higher sales prices, our profitability will decline. From time to time, vendors can extend lead times, limit supplies, or increase prices due to capacity constraints or other factors. Although some of our contracts include competitive price clauses that allow us to buy outside the contract if market prices fall below contract prices and other contracts have minimum-maximum monthly volume obligations that allow us to take advantage of spot prices, we may not be able to purchase raw materials at market price. In addition, some of our customer contracts include sales price provisions that are indexed to publicly available indices for these commodities; However, we may not immediately be able to pass on commodity price increases to our customers, if at all. Due to differences in the timing of the pricing mechanism trigger points between our sales and purchase contracts, there is often a lead-layer impact where margins are adversely affected in the short term during periods of rising commodity prices and positively affected during periods of falling commodity prices. Commodity prices cannot decline from current high levels, or if they do, we may not be able to capitalize on such reductions on time, if at all. Rising energy costs have previously increased our operating costs and reduced net income and may in the future continue to do so, which could have a negative impact on our financial condition. Natural gas is essential our production processes, and costs can vary widely and unpredictably. Our energy costs accounted for approximately 4% of our total sales costs in 2005. Energy costs have increased significantly in recent years due to the increase in the cost of oil and natural gas and the recent lack of energy in various states, including those caused by Hurricanes Katrina and Rita. Our operating costs increased in 2005 and will continue to increase if these costs continue to rise or do not return to historical levels. Rising energy costs can also increase our raw material costs. If we cannot transfer these costs to our customers, our profitability may decrease. In addition, increasing energy costs also negatively affect our customers and demand for our products. These risks will be exacerbated if our customers or production facilities are in places that are experiencing severe energy shortages. 24 Table of Contents Environmental liabilities and liabilities can have a significant negative impact on our financial condition, cash flows and profitability. Our activities involve the use, handling, processing, storage, transport and disposal of hazardous materials and are subject to comprehensive environmental laws and regulations at the national, state, local and international level. Such environmental laws and regulations include those that regulate the release of pollutants in air and water, management and disposal of hazardous materials and waste, clean-up of contaminated areas and health and safety at work. We have incurred and will continue to incur significant costs and capital expenditures in accordance with these laws and regulations. In 2005, we incurred $18 million in capital expenditures to comply with environmental laws and regulations, and for other environmental improvements. In addition, violations of environmental laws or permits may result in restrictions imposed on our operating activities or this spring to be subjected to significant fines, penalties, criminal cases, third party property damage or personal injury claims or other costs. In addition, future development or increasingly strict regulation may require us to make further unforeseen environmental expenditures. For example, the Louisville Metro Air Pollution control district has proposed new regulations that, if pronounced in its current form, could result in increased costs at our Louisville, Kentucky facility. In addition, potential flight compliance issues at the Louisville facility could affect our ability to achieve operational synergies on time. Although we fully comply with environmental laws, we are subject to liability related to hazardous substances in soil, groundwater and elsewhere in a number of places. These include locations that we previously owned or operated, and places where hazardous waste and other substances from our current and previous facilities and operations have been processed, stored or websites that we currently own or operate. Depending on the circumstances, our responsibilities may be shared and more, which means that we may be held accountable for more than our proportionate share, or even all, of the responsibility involved. Environmental conditions in such places may result in claims against us for personal injury or wrongful death, property damage and natural resource damage, as well as claims and obligations for investigation and clean-up of environmental conditions. The scale of such commitments can be difficult to predict. We have been notified that we are or may be responsible for environmental remediation in a number of locations in the United States, Europe and South America, and we are also conducting a number of voluntary cleanups. We believe that the most important of these and the site that makes up about half of our remediation provision is the site previously owned by us in Geismar, Louisiana. As a result of past, current or future operations, there are likely to be additional environmental remediation or restoration obligations or claims for personal injury by employees or members of the public due to exposure or alleged exposure to hazardous materials in connection with our business, properties or products. We are aware of several sites, sold by us over 20 years ago, that can have significant costs of closure or remediation. Actual costs on these sites, as well as our share, if any, are unknown to us at this time. In addition, we have been served in two tort actions related to one of these sites. If we fail to mount a successful defense against litigation involving past websites, any significant finding of liability could have a negative impact on our financial condition, cash flows and profitability. These environmental obligations or obligations, or anything that may arise or become known to us in the future, could have a materially negative effect on our financial condition, cash flows and profitability. Because we manufacture and use materials that are known to be dangerous, we are subject to comprehensive product and production regulations, as compliance can be costly and time-consuming. We produce hazardous chemicals that require care in handling and use and are subject to regulation by many American and non-American. national, supranational, state and local authorities. In some cases, before we can sell any of our products these authorities must approve these products and our manufacturing processes and facilities. As our facilities grow, we may be subject to additional regulation or higher compliance standards. We are also subject to ongoing reviews of our products and manufacturing processes. Formaldehyde, for example, is a comprehensive regulated chemical, which various public health enterprises continue to evaluate. The International Agency for Research on Cancer, or IARC, has recently reclassified formaldehyde as carcinogenic to humans, a classification than previous IARC evaluations, mainly based on a study conducted by the National Cancer Institute (NCI) linking formaldehyde exposure to nasopharyngeal cancer, a rare form of cancer in humans. IARC also concluded that there was strong but insufficient evidence to determine a causal link between leukemia and occupational exposure to formaldehyde, although IARC could not identify a mechanism of leukemia induction. IARC's monograph reporting this decision has not yet been published. It is possible that this reclassification will lead to further government review of existing regulations and could lead to further costly claims. In addition, BPA, which is used as an intermediate at our Deer Park and Pernis production facilities and also sold directly to third parties, is currently under evaluation as an endocrine disrupter. Endocrine disrupters are chemicals that have been purported to interact with endocrine systems of humans and wildlife and disrupt normal processes. According to EU Regulation 793/93/EC, BPA manufacturers are currently conducting a comprehensive toxicology test programme for the chemical. 2 BPA further regulated, it is likely to incur additional operating costs to meet stricter regulation of the chemical. In order to obtain regulatory approval of certain new products, we must demonstrate to the relevant authority that the product is safe for intended use and that we are able to produce the product in accordance with applicable regulations. The process of seeking approvals can be costly, time-consuming and subject to unexpected and significant delays. Approvals cannot be given to us on time, or at all. Any delay in obtaining, or inability to obtain or maintain, these approvals will affect our ability to introduce new products and generate revenue from these products. New laws and regulations may be introduced in the future that may result in additional compliance costs, seizures, confiscation, recall or monetary fines, which may prevent or inhibit the development, distribution or sale of our products. For example, we produce resin-coated sand. Because sand consists mainly of crystalline silica, it creates the potential for silica exposure, which is a recognized health hazard. The Occupational Safety and Health Administration, or OSHA, is likely to propose in 2006 a comprehensive occupational safety and health standard for crystalline silica to ensure lower permissible exposure limits, exposure monitoring, medical monitoring and worker training. We may need to incur significant additional costs over time to comply with any new OSHA regulations. In addition, the European Commission completes a new regulatory system, known as registration, evaluation and authorisation of chemicals, or REACH, which would require manufacturers, importers and consumers of certain chemicals to register such and assess their potential impact on human health and the environment. Based on the results of the evaluation, a newly created regulatory body would then determine whether the chemical should be tested, regulated, restricted or banned from use. If REACH is adopted in its current form, significant market restrictions may be imposed on the current and future use of chemical products sold by us in the EU. Because the timing and ultimate form of the potential REACH regulation is not yet known, we cannot accurately predict future compliance costs, which may be significant. If we do not comply with applicable laws and regulations, we may be subject to civil remedies, including fines, orders, recalls or seizures, which will have a negative effect on our financial condition, cash flows and profitability. Because we manufacture and use materials known to be hazardous, our production facilities are subject to significant operational hazards that could cause personal injury and loss of life, serious damage to or destruction of, property and equipment and environmental pollution. We depend on the continued operation of our 86 production facilities. These facilities are subject to the dangers associated with the production, handling, storage and transportation of chemical materials and products, including pipeline leaks and breaches, explosions, fires, bad weather and natural disasters, mechanical failure, unplanned downtime, work difficulties, transport interruptions and environmental hazards, such as emissions, emissions or discharge of toxic or hazardous substances and gases, storage tank leaks and remediation complications. These hazards may cause personal injury and loss of life, serious damage to or destruction of, property and equipment and environmental pollution and other environmental damage and 26 Table of Contents can have a material negative effect on our financial condition. In addition, due to our activities, we have been and may continue to be subject to scrutiny from environmental action groups. For example, there is currently an environmental group near our Louisville plant led by residents of the Rubbertown area, where there are many chemical plants, including our plant. As is typical of such groups, residents argue that the chemical plants have caused health and property damage. In addition, in another state, we have been named as a defendant in a lawsuit involving one of our sold facilities that claim residents living nearby suffered health problems as a result of exposure to chemicals used at that facility. In addition, a group has challenged the use of the tolu di-isocyanate (TDI) at our Môlndal, Sweden plant. As a result, a court has ruled that TDI use under the current permission must be reduced. Although we appealed the court's ruling, a limit on TDI use would limit certain operations at that facility. the activities of environmental groups may result in further litigation and damage to our reputation. We may incur losses outside the bounds of, or outside the coverage of, our insurance policies, especially for environmental cleanup obligations that may arise as a result of such hazards. In addition, various types of insurances for companies in the chemical industry, such as coverage for silica claims, have not been available on commercially acceptable terms, or in some cases have been unavailable. In the future, we may not be able to get coverage at the current level, and our premiums may increase significantly on coverage that we maintain. We are subject to adverse requirements from our customers and their employees as a result of the dangerous nature of the products. We produce hazardous chemicals that require appropriate procedures and care to be used to handle them or use them to produce other products. As a result of the dangerous nature of some of the products we use and manufacture, we may face exposure related to incidents involving our customers' improper handling, storage and use of our products. On February 20, 2003, an explosion occurred at the plant of one of our customers, CTA Acoustics, Inc., which we refer to as CTA. Seven factory workers were killed and more than 40 workers were injured. There are six lawsuits in Laurel County, Kentucky, as a result of this incident, primarily seeking recovery for wrongful death, personal injury, emotional distress, loss of consortium, property damage and damages. On October 20, 2005, a settlement was reached with representatives of seven deceased factory workers and twelve seriously injured workers. Our proposed share of the settlement amount is expected to be covered by insurance. Property damage claims and suits of workers for emotional distress and minor injuries remain to be resolved. Although we believe that we have sufficient insurance coverage to handle any additional payments and/or legal fees in excess of $5 million involved in a single incident, we may be subject to further significant considerations given the nature of this lawsuit. We have historically faced a significant number of lawsuits, including class action lawsuits, claims of liability for death, damage or property damage caused by products we manufacture or those containing our components. These lawsuits, and any future lawsuits, could result in significant damages against us, which in turn may encourage more lawsuits. The classification of formaldehyde as carcinogenic to humans by IARC may become the basis of product liability lawsuits, especially if there are some definitive studies showing a causal relationship with leukemia. In addition, largely as a result of the bankruptcies of many manufacturers of asbestos-containing products, the plaintiffs' lawyers increase their focus on peripheral defendants, including us, arguing that even which contained a small amount of asbestos caused damage. The plaintiffs' lawyers are also focusing on alleged damage caused by other products we have made or used, including silica-containing resin-coated sand and vinyl chloridemonin, or VCM. While we cannot predict the outcome of pending lawsuits and claims, we believe that we have sufficient reserves to handle currently pending litigation and adequate insurance to cover pending and predictable future claims. An unfavorable outcome in these lawsuits may lead to the decline of our profitability, business, financial condition and reputation. Our significant international business exposes us to risks that do not face domestic competitors, which include adverse political, regulatory, labor and tax conditions in other countries. We have significant manufacturing operations outside the United States. In 2005, our net sales outside the United States accounted for approximately 50% of our total sales. We have 49 production facilities outside the United States, mainly concentrated in Australia, Brazil, Canada, China, Czech Republic, 27 Table of Contents Germany, Italy, Korea, Malaysia, the Netherlands and the United Kingdom. Therefore, our business is subject to the various legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks are inherent in international operations, including, but not limited to, the following: • difficulties in enforcing agreements through foreign legal systems; • foreign customers may have longer payment cycles; • foreign countries may impose additional withholding tax or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade and investment, including currency exchange controls; • fluctuations in exchange rates may affect product demand and may affect the profitability of US dollars of products and services offered by us in foreign markets where payment for our products and services is made in local currency; • increased costs for transport or shipping; • risk of nationalisation of private enterprises; • changes in general economic and political conditions in the countries in which we operate; • unexpected adverse changes to foreign laws or regulatory requirements, including those with respect to environmental protection, export duties and quotas; • problems with staffing and handling of extensive operations; and • necessary compliance with a number of foreign laws and regulations. In addition, intellectual property rights may be more difficult to enforce abroad. We currently have joint ventures in China, where we license technology to our joint venture partners. We may not be able to adequately protect our intellectual property in China or elsewhere. Our business in emerging markets requires us to respond to rapid changes in market conditions in these countries. Our overall success as a global business depends in part on our to succeed in various legal, regulatory, economic, social and political conditions. We cannot continue to succeed in developing and implementing policies and strategies that will be effective in every place where we do business. Furthermore, each of the preceding risks is likely to incur increased importance when implementing our plans to expand our foreign business. Currency conversion risk and currency transaction risk can negatively affect net sales, sales costs and operating expenses and can lead to currency losses. We operate our business and incur costs in the local currency in most countries where we operate. In 2005, our net sales outside the United States accounted for approximately 50% of our total sales. 07.099 our results are reported in the relevant local currency and then translated into US dollars at the current exchange rate for inclusion in our accounting. Changes in exchange rates between these foreign currencies and the US dollar will affect our net sales, sales costs and operating margins and may lead to currency losses. In addition to currency translation risk, we incur currency transaction risk when one of our subsidiaries enters into either a purchase or a sales transaction using a currency other than the currency in which they receive income. However, the hedging transactions we are included in may not be effective or may result in the loss of currency protection. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted. Given the volatility in exchange rates, we may not be able to effectively manage our currency transaction and/or translation risk, and any volatility in exchange rates can have a negative effect on our financial condition, cash flows and profitability. We operate in countries that have historically been and may continue to be prone to recessions or currency devaluation, including Brazil and Malaysia. In addition, as we expand our business in emerging markets, especially China and Russia, the uncertain regulatory environment associated with currency policy in these countries can have a negative impact on our business there. 28 Table of Contents Failure to develop new products will make us less competitive. Our results of operations depend significantly on our ability to expand our product offerings, and to continue to develop our manufacturing processes to be a competitive manufacturer. We are committed to remaining a competitive manufacturer and believe that our portfolio of new or re-engineered products is strong. However, we cannot continue to develop new products, re-construct our existing products successfully or bring them to market on time. For example, our historical research and development efforts have focused on customer service, and we cannot succeed in shifting our focus to the type of research that will lead to significant new product development. In addition, some of our research and development researchers are located at our individual facilities instead of at a research facility, which may hinder their ability to share ideas and create new products. While we believe that the products, prices and services we offer customers are competitive, we may not be able to continue to attract and retain customers such as selling our products. We face competition from other chemical companies, which can force us to lower our prices, thereby negatively affecting our operating margins, financial condition, cash flows and profitability. The markets in which we operate are highly competitive and this competition can damage our business, results of operations, cash flow and financial condition. Our competitors include major international manufacturers as well as smaller regional competitors. We believe that the main competitive factor for our products is the sale price, and we may be forced to lower the sales price based on our competitors' price decisions, thereby reducing our profitability. In addition, current and expected future consolidation among our competitors and customers could lead to us losing market share, as well as putting downward pressure on prices. Furthermore, there is a trend in the chemical industry towards moving production facilities to more affordable regions such as Asia. Such relocation can allow some of our competitors to lower their costs and improve their competitive position. Some of our competitors are bigger, have greater financial resources and have less debt than we do. As a result, these competitors may be better able to withstand a change in conditions in our industry and throughout the economy as a whole. If we do not compete successfully, our business, operating margins, financial condition, cash flows and profitability may be adversely affected. Competition from manufacturers of materials that are substitutes for formaldehyde-based resins can lead to a decline in net sales attributable to these products. We face competition from a range of products that are potential replacements for formaldehyde-based resins. Currently, we estimate that formaldehyde-based resins make up most of the resins used as panel plate resin, wood and specialty adhesives and industrial resins. A decline in the average sales price of formaldehyde can lead to our profitability declining. For example, competition among manufacturers of foundry and specialty resins has led to erosion in certain product prices in the past. Our ability to maintain or increase profitability will continue to depend, to a large extent, on our ability to offset reductions in average sales prices by improving production efficiency or by switching to higher-margin chemical products. In addition, in some markets, non-formaldehyde based may be an alternative to our formaldehyde-based resins. Significant growth in these replacements for formaldehyde-based resins can negatively affect market share, net sales and profit margins. Furthermore, the movement towards replacement products may worsen as a result of IARC's recent reclassification of formaldehyde from a probable human carcinogen to carcinogen to humans based on studies linking formaldehyde exposure to nasopharyngeal cancer, and a possible causal relationship between leukemia and occupational exposure to formaldehyde. Acquisitions and joint ventures that we pursue can present unforeseen integration obstacles and costs, increase our leverage and negatively affect our performance. We have made acquisitions of related businesses, and entered into joint ventures in the recent past and intend to selectively pursue acquisitions of, and joint ventures with, related businesses as one element of our growth strategy. We are considering several potential tuck-in acquisitions and are in various stages of due diligence and 29 Table of Contents negotiations with respect to this. These transactions cannot be consummated for the foreseeable future, if at all, and we cannot consummate significant acquisitions in the future. In the future, we can pursue acquisitions on a significantly larger scale than before. If such acquisitions are consummated, the risk factors we describe below, and for our business in general, may intensify. Our ability to implement our growth strategy is limited by covenants in our senior secured credit facilities and indentations, our financial resources, including available cash and loan capacity, and our ability to integrate or identify appropriate acquisition and joint venture candidates. Furthermore, acquisitions of companies may require us to undertake or incur additional debt financing, resulting in further leverage and complex debt structures. The expenses incurred in consummate acquisitions of related businesses, or our failure to successfully integrate such businesses into our existing businesses, may result in us incurring unexpected expenses and losses. Moreover, we may not be able to realize any expected benefits from acquisitions or joint ventures. The process of integrating acquired operations into our existing business can lead to unforeseen operational difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with our acquisition and joint venture strategy include: • potential disruption to our ongoing business and distraction of management; • unexpected loss of key employees or customers of the acquired company; • comply with the acquired company's standards, processes, procedures and controls with our business; • coordinate new product and process development; • hire additional management and other critical personnel; • increase the scope, geographical diversity and complexity of our business. In addition, we may encounter unforeseen obstacles or costs in the integration of acquired businesses. For example, the preparation of the US GAAP accounts for Bakelite required significant management resources. Also, the presence of one or more material obligations in an acquired company unknown to us at the time of acquisition can have a material negative effect on our business. Our acquisition and joint venture strategy cannot be received by customers and we cannot realize any expected benefits from acquisitions or joint ventures. Our future success depends on our ability to retain our key employees. We rely on the services of Craig O. Morrison, our President and CEO, William H. Carter, our Chief Financial Officer, and other members of our senior management team, who together have over 140 years of experience in the chemical and plastics industry, to remain competitive in our industry. The loss of Mr. Morrison or another member of our management team can have a negative effect on us. There is a risk that we will not be able to retain or replace these key employees. All of our current key employees are subject to employment or arrangements that contain non-competition provisions after employment. However, these arrangements allow employees to terminate their work with little or no notice. We may be required to spend more time and expense than other companies in dealing with our employees, some of whom are unionized, represented by employee advice or are employed under local laws that are less favorable to employers than the laws of the United States. As of December 31, 2005, approximately 46% of our employees were union members or represented by labor councils that have collective bargaining agreements. In addition, some of our employees are employed in countries where labor laws provide greater bargaining or other rights to employees than the laws of the United States. Such favorable employment rights require us to spend more time and expenses to make 30 changes to the table of contents in employees' terms of employment or make personnel reductions. For example, most of our employees in Europe are represented by employee councils who must approve any changes to the terms of employment, including wages and benefits. Protection against termination claims has been brought by certain of such employee advice in connection with Bakelite's cost-saving measures. A significant dispute with our employees may divert management's attention and otherwise hinder our ability to run our business and achieve planned cost savings. We rely on patents and confidentiality agreements to protect our intellectual property. Our failure to protect our intellectual property rights may adversely affect our future performance and growth. Protection of our processes, methods and connections and other technologies are important to our business. Failure to protect our existing intellectual property rights may result in the loss of valuable technologies or having to pay other companies to infringe their intellectual property rights. We rely on patent, trade secret, trademark and copyright, as well as legal enforcement to protect such technologies. A majority of our patents are related to the development of new products and processes for the production and use of these and expire at different times between 2006 and 2026. Some of our technologies are not covered by patent or patent applications. In addition, our patents may be challenged, invalidated, circumvented or rendered unenforceable. Furthermore, pending patent applications may not result in an issued patent, or if patents are issued to us, such patents may not provide meaningful protection against competitors or against competition technology. Our manufacturing processes and products are specialized. However, we may face patent infringement claims from our competitors or others who claim that our processes or products infringe their proprietary technology. If we were subject to an infringement case, we may be required to modify our processes or products or stop using certain technologies or produce the infringing product altogether. Although we ultimately prevail in an infringement case, the existence of the suit may result in our customers seeking other products

that are not subject to infringement suits. Any infringement proceedings could result in significant legal costs and damages and hinder our ability to produce important products, which could have a materially negative effect on our business, financial condition and results of operations. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or restricted in some foreign countries. In some countries, we do not apply for patent, trademark or copyright protection. We also rely on un-promoted proprietary manufacturing expertise, continuous technological innovation and other trade secrets to develop and maintain our competitive position. Although we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, such confidentiality agreements are limited in duration and may be breached and may not provide meaningful protection for our trade secrets or proprietary manufacturing expertise. Sufficient remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and manufacturing expertise. In addition, others may gain knowledge of our trade secrets through independent development or other access legally. Failure of our patents or confidentiality agreements to protect our processes, appliances, technology, trade secrets and proprietary manufacturing expertise, methods and compounds may have a effect on our business by setting critical critical Property. If we cannot access funds generated by our subsidiaries, we may not be able to meet our financial obligations. Because Hexion performs many of its operations through its subsidiaries, Hexion relies on these entities for dividends, distributions and other payments to generate the funds necessary to fulfill its financial obligations. Legal and contractual restrictions in certain agreements governing the current and future liabilities of Hexion's subsidiaries, as well as the financial conditions and operating requirements of Hexion's subsidiaries, may limit Hexion's ability to raise money from its subsidiaries. All Hexion subsidiaries are separate and independent legal entities and have no obligation to pay dividends, distributions or other payments to Hexion. 31 Table of Contents Significant changes in the pension fund's investment performance or assumptions related to pension costs may increase the valuation of pension liabilities, change the funded status of pension schemes and increase our pension costs. Our funding policy for pension schemes is to collect plan assets that will in the long run approximate the present value of expected benefit obligations. Our pension costs are significantly affected by the discount rate used to measure pension liabilities, the level of plan assets available to fund these liabilities on the date of measurement and the expected long-term return on plan assets. Significant changes in investment performance or a change in the portfolio mix of invested assets may lead to corresponding increases and decreases in the valuation of plane assets, especially equity securities, or in a change in the expected return on plan assets. A change in the discount rate will lead to a significant increase or decrease in the valuation of pension liabilities, affecting the reported funded status of our pension schemes as well as net periodic pension costs in the following financial years. Similarly, changes in the expected return on planned assets can lead to significant changes in net periodic pension costs for the following financial years. One of the company's pension schemes is currently underfunded and we may have to make significant cash payments to the plan and/or incur a liability to Pension Benefit Guaranty Corporation. Termination of Pension Benefit Guaranty Corporation will further increase our pension cost and may result in liens on material amounts of our assets. On April 14, 2005, the company pension benefit guaranty corporation, or PBGC, announced that an older Borden Chemical defined benefit pension plan (Borden plan) was underfunded by approximately $104 million on a termination basis. The IRS regulations require us to increase our contributions to the Borden plan to reduce this underfunding. Based on applicable IRS regulations and we expect our total minimum requirements for the five years ended in 2010 for Borden Borden will be about $55 million. If the performance of the assets in the Borden Plan does not meet our expectations, if pbgc requires additional contributions to the Borden Plan as a result of the Hexion Formation if there are changes in the IRS regulations or other applicable law, or if other actuarial assumptions change, our contributions for those years may be higher than we expect. The need to make these cash contributions can reduce the money available to meet our other obligations or to meet the needs of our business. In addition, the PBGC may terminate the Borden plan under limited circumstances, including in the event that the PBGC concludes that the risk may increase unreasonably if the Borden plan continues. E-mail to the Borden plan ends for some reason while underfunded, we may be required to make an immediate payment to the PBGC of all or a significant portion of the Borden plan's underfunding, as calculated by pbgc based on its own assumptions (which may result in a greater pension obligation than that based on the assumptions we have used to fund the Borden plan) , and pbgc could claim a lien on material quantities of our assets. In addition, the IRS in 2003 notified the company that cash balance plans such as the Borden plan may be required to be changed due to recent ERISA decisions that found cash balance plans to be discriminatory. The IRS indicated that the Borden plan would continue to work as it is designed until new guidance is available. Although the effect of future guidance is not known, it is possible that such guidance may increase our obligations under the Borden plan. 32 Table of Contents Our share sponsor controls us, and its interests may conflict with or deviate from your interests. Apollo owns about 91% of our common stock. In addition, representatives of Apollo have the ability to prevent any transaction that requires the approval of directors. As a result, Apollo has the ability to materially influence all matters requiring shareholder approval, including the election of our directors and approval of significant company transactions such as mergers, tender offers and the sale of all or substantially all of our assets. The interests of Apollo and its affiliates may conflict with or deviate from your interests. For example, the concentration of ownership held by Apollo may delay, delay or prevent a change of control of our company or prevent a merger, takeover or other business combination, which you might otherwise see positively. Apollo may also pursue acquisition opportunities that may complement our business, and as a result, these acquisition opportunities may not be available to us. A sale of a significant number of shares in the future by funds associated with our equity sponsor may cause our share price to decline in the future. Our internal control over financial reporting may not be effective, and our auditors cannot certify co-effects on its effectiveness, which can have a significant and negative effect on our business and reputation. We will be subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC below (which we refer to as Section 404) as of December 31, 2007. § 404 requires us to report on, and our independent auditors to attest, the design and effectiveness of our internal control over financial reporting. Prior to the combinations, Borden Chemical and Resolution Performance had carried out the system and process evaluation in an attempt to comply with management certification and the auditor's attestation requirements in Section 404. But before combinations, Bakelite and Resolution Specialty were not required to comply with these regulations. During our ongoing Section 404 evaluation, we have identified areas with internal controls that need improvement. 33 Table of Contents For example, Bakelite's original financial reporting system was designed to comply with German GAAP; Therefore, Bakelite's management determined that Bakelite did not have sufficient internal controls and resources related to the preparation of US GAAP accounts. When Resolution Specialty began the process of developing a standalone infrastructure, Resolution Specialty management determined that Resolution Specialty did not have sufficient internal controls and resources related to the preparation of U.S. GAAP accounts. In addition, as our international business has expanded and the complexity of our business has increased, we have determined that local resources in some cases are not sufficiently familiar with U.S. GAAP areas such as income tax accounting. As a result of such provisions, we have used several external advisors, as needed, to assess and assist with the U.S. GAAP closing and consolidation processes related to the preparation of the financial statements included herein, including the conversion of local and German GAAP to U.S. GAAP. Although we have added additional resources to help with gaap closing processes for GAAP, tax accounting, and consolidation, such closing and consolidation processes may cause delays in reporting our performance. To improve our internal controls, we have changed and expanded the roles and responsibilities of key personnel and made changes to certain financial reporting processes. As part of the integration of Resolution Specialty and Resolution Performance, we continue the process of consolidating some of the transaction processing and general accounting activities of Resolution Specialty, and Resolution Performance to a lesser extent, into a common environment for transaction processing of shared services with corporate and North American activity related to the previous Borden Chemical operation. We have also recently launched a project to more legacy systems and more SAP® systems. Once fully implemented, this change to a shared services business model (for certain processes) together with a single SAP® system is intended to further improve our internal control over financial reporting and our operational efficiency. We have also expanded the scope of the services of the international accounting firm offering tax accounting and compliance services and support to include Resolution Performance, Resolution Specialty and Bakelite. Management has also added additional tax staff to help current personnel monitor the tax reporting process and continues to evaluate the need for additional tax, U.S. GAAP and resource requirements for financial reporting based on combinations and recent acquisitions. However, as the evaluation process progresses, we can identify additional factors that can be categorized as areas of internal control that need improvement in the future. We cannot be sure at the time of completion of our evaluation, documentation, testing and any remediation measures or the impact of the same on our business. If our remediation measures described above are not sufficient and we are not able to obtain reports or departmental checks on time, the CFO or CEO may conclude that our controls are ineffective in connection with Section 404, our independent auditors may conclude that our assessment process or our internal control over financial reporting was not effective. As a result, there may be a negative reaction in financial markets due to loss of confidence in the reliability of our accounts or our accounts may change. In addition, we may be required to incur costs to improve our internal control system and the hiring of additional personnel. Any such action can adversely affect our results of operations. 34 Table of Contents ITEM 1B. UNRESOLVED STAFF COMMENTS None. As of December 31, 2005, we operated 37 domestic production and production facilities in 19 states. In addition, we operated 49 foreign production and production facilities mainly in Australia, Brazil, Canada, Czech Republic, China, Germany, Italy, Korea, Malaysia, the Netherlands, Spain and the United Kingdom. Our production and production facilities are generally well maintained and efficiently utilised. We believe that our production and production facilities are sufficient to conduct our business. Most of our facilities are used for the production of thermosetting resins, and most of our plants produce more than one type of thermos resin. The resins produced vary from place to place, but include all our technologies: amino resins (urea and melamine), phenolic resins, epoxy resins, alkyd resins, polyester resins, acrylic resins, urethors, ink resins, composite resins, powder resins, versatic derivatives and U/V resins. These typically use batch technology, and varies in from small locations with a limited number of reactors to larger core areas with dozens of reactors. Two exceptions to this are the plants in Solbiate, Italy and Deer Park, Texas (the only continuous process of epoxy resin plants in the world), which gives us a cost advantage over conventional technology. In addition, we have the ability to internally produce important intermediate materials such as formaldehyde, BPA, ECH, versaic acid, acrylic acid and gum raisins. This gives us a competitive advantage over our competitors and facilitates our adequacy of the offer. These facilities are usually co-located with the thermos resin plants they serve, and the process technology used in the manufacturing process is generally more complicated. These intermediate material facilities are often much larger than a typical resin plant, to capture the benefits of production efficiency and scale; As a result, these facilities usually also have the ability to sell material that is not used internally to third parties. 35 Table of Contents We are headquartered in Columbus, Ohio and our large production facilities are primarily located in North America and Europe. Our more significant production and production facilities include: Location Nature of Ownership Reporting Segment Pernis, Netherlands* Owned Epoxy and Phenolic resins Duisburg-Meiderich, Germany Eid/Leid Epoxy and Phenolic Resins Deer Park, TX Owned Epoxy and Phenolic Resins Iserlohn-Letmathe, Germany Eid/Leased Epoxy and Phenolic Resins Norco, LA* Owned Epoxy and Phenolic Resins Louisville, KY Eid Epoxy and Phenolic Repixies Sokolov, Czech Republic owned coatings and Inks Edmonton, AB, Canada Owned Formaldehyde and Forest Products Gonzales, LA Owned Formaldehyde and Forest Products Kitee, Finland Owned Formaldehyde and Forest Products Geismar, LA Owned Formaldehyde and Forest Products Lakeland, FL Owned Epoxy and Phenolic Resins Brady, TX Owned Performance Products * All assets at this facility are owned. The land is occupied according to a ground rent. 36 Table of Contents ITEM 3. Litigation Litigation Environmental negotiations. We have registered liabilities of approximately $39 million related to 69 locations as of December 31, 2005 for all probable environmental remediation, indemnity and restoration debt. As of December 31, 2004, we registered commitments of approximately $41 million related to 63 locations for all probable environmental remediation, indemnity and restoration obligations. These locations include existing and former production sites, as well as third-party disposal or Superfund sites where we have been named a potentially responsible party. Sokolov, the Czech Republic plant has soil and groundwater pollution that pre-dates privatization and acquisition of the plant by Eastman in 2000. The investigation phase of a remediation project is ongoing, led by a steering committee company, the National Real Estate Fund and local regulators. The National Property Fund has granted its written obligation to refund all investigative and remediation costs up to approximately $73 million. The current estimate for known site remediation is $16 million, but may increase after further investigation of the site. On August 30, 2005, Governo Do Parana and the Environmental Institution of Paraná IAP, an environmental agency of the Brazilian government, borden Quimica Industrias, issued a potential fine of up to $5.4 million in connection with alleged environmental damage to the Port of Paranagua caused in November 2004 by an oil spill by a ship carrying methanol purchased by Hexion. The investigation is ongoing and no final decision has been made with respect to the damages or liability of our Brazilian subsidiary. We dispute this claim. We have entered into environmental damage resolution agreements with each of the sellers in Bakelite Transaction, Resolution Performance Transaction and Resolution Specialty Transaction. Under the Bakelite Environmental Damage Resolution Agreement, the sellers have agreed to indemnity us for certain existing environmental obligations, including those related to our plant in Duisburg, Germany. Under the Environmental Harm Protection Act, Shell will generally remain responsible for existing environmental conditions at facilities transferred to us in connection with the solution performance transaction, and under the Environmental Harm Assessment Resolution Agreement, Eastman will generally remain responsible for existing unknown environmental conditions on facilities transferred to us in connection with the resolution speciality transaction. , as well as the existing known environmental conditions at the Roebuck, South Carolina plant. The indemnity obligations under each of these agreements are subject to certain exclusions and limitations. In addition, our claims under each of the environmental damage agreements are subject to deductibles, from $0.1 million for the Resolution Specialty Agreement to €1 million for certain claims under the Bakelite Agreement, and damages limits ranging from $10 million for certain obligations under the Resolution Performance Agreement to €275 million for certain obligations under the Bakelite Agreement. Other lawsuits. We are involved in various product liability, commercial litigation, personal injury, property damage and other litigation deemed to be in the ordinary course of our business. Largely, as a result of the bankruptcies of many asbestos producers, plaintiff's lawyers are increasing their focus on peripheral defendants, including us, arguing that even products containing a small amount of asbestos caused harm. The plaintiffs also focus on damage caused by other products we have made or used, including those containing silica and vinyl chloridemonin. We believe we have sufficient reserves and insurance to cover pending and predictable future claims. We have reserved approximately $12 million on December 31, 2005 related to all non-environmental legal matters for legal defense and settlement costs that we believe are likely and estimative at this time. As of December 31, 2004, we reserved approximately $21 million related to all non-environmental legal matters for legal defense and settlement costs that were believed to be probable and estimable at this time. 38 Table of Contents ITEM 4. SUBMISSION OF CASES TO A VOTE OF SECURITY HOLDERS During the fourth quarter, no cases were submitted to a vote of security holders. PART II ITEM 5. MARKET FOR REGISTRANT COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASE OF STOCK SECURITIES No public trading market has been established for our common stock. As of March 31, 2006, 82,629,906 common shares were held by our parent, Hexion LLC. We do not currently intend to pay cash dividends on our common share, and instead intend to retain earnings, if any, for future operations and debt reduction. Our senior secured credit facilities and the indentations that govern our notes impose restrictions on our ability to pay dividends, and thus our ability to pay dividends on our common share will depend, among other things, on our level of debt at the time of the proposed dividend and whether we are defaulted under any of our debt instruments. Our future dividend policy will also depend on the requirements of any future financing agreements that we may be a party and other factors deemed relevant by our board of directors. Any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and will depend, among other things, on our results of operations, cash claims, financial condition, business opportunities, delivery of applicable law and other factors that our Board of Directors may consider relevant. For a discussion about our cash resources and needs, see Management's discussion and analysis of financial condition and results of operations – liquidity and capital resources. On May 31, 2005, we used all the proceeds we received from the offering of shares in our Serie A Preferred Stock and part of the proceeds from loans under our senior secured credit facilities to declare a special dividend of approximately $550 million (of which $27 million remains to be paid) to our parent, Hexion LLC, which in turn paid a pro rata special dividend to its shareholders , which included Apollo and other investors, including certain members of our management. We have no compensation plans that authorize the issuance of our shares to employees or non-employees. There has been no sale or repurchase of our stock securities during the last financial year. 6. SELECTED ECONOMIC DATA Five years Selected consolidated financial data Below summarizes our selected economic data over the past five years. See Results of operations in section 7 – Management's discussion and analysis of financial condition and results of operations for elements affecting comparability between 2005, 2004 and 2003. (In millions, excluding share and per share data) For years (1) 2005 (2) 2004 (3) 2003 (3) 2002 (3) 2001 Summary of earnings Net sales $4470 $2019 782 740 $ 863 Loss from continuing operations (78) (105) (50) (11) (5) Net loss applies to common shareholders (117) (105) (50) (11) 5) Basic and diluted loss per common share from continuing operations $ (1.30) $ (1.27) $ (0.61) $ (0.13) $ (0.06) Basic and diluted (loss) income per share (1.41) (1.27) $ (0.61) (0.13) (0.06) Dividend per share Redeemable Series A Preferred Share $ 6.66 — — — Average number of outstanding shares in the period- basic and diluted 82,629,906 82,629,906 82,629,906 82,629,906 82,629,906 Financial statistics Total assets $82,629,906 3,209 $2,696 $1,191 $1,179 $1,101 Long-term debt $2,303 $1,834 $675 $567 $581 (1) Includes data for Bakelite from the date of acquisition, April 29, 2005. The results include $17 of write-downs of deferred funding fees and $44 of transaction costs. (2) Includes data for Resolution Specialty from August 2, 2004 and for Borden Chemical from August 12, 2004, their respective dates of acquisition of Apollo. The results include $56 of transaction costs. (3) Includes results of resolution performance only. 39 TABLE OF CONTENTS ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in MILLIONS) Forward-LOOKING AND CAUTIONARY STATEMENTS Certain statements contained in this Annual Report on Form 10-K, including, but not limited to, statements under the captions Overview and Outlook, are forward-looking statements within the provisions of Section 27A of the Securities Act of 1933, as amended and section 21E of securities exchange act of 1934 , with changes. In addition, the management of Hexion Specialty Chemicals, Inc. (which may be called Hexion, we, us, our or the Company) from time to time make oral forward-looking statements. Forward-looking statements may be identified by the words believe, expect, anticipate, project, plan, estimate, will or intend and similar expression. The forward-looking statements contained in this Addendum reflect our current views with respect to future events and are based on our current available financial, financial and competitive data and on applicable business plans. Actual results may vary materially depending on risks and uncertainties that may affect the Company's business, markets, services, prices and other factors described herein in section 1A – risk factors. Important factors that could cause actual results to differ materially from those contained in the forward-looking include, but is not limited to: economic factors such as an interruption in the supply of or increased pricing of raw materials due to natural disasters, competitive factors such as pricing measures by our competitors that may affect our operating margins, and regulatory factors such as changes in state regulations involving our products that lead to environmental and legal conditions as described herein in section 3. Trials. 40 Table of contents overview We are the world's largest manufacturer of thermoset resins, or thermos. Thermoses are a critical ingredient for almost all paints, coatings, adhesives and other adhesives produced for consumer or industrial use. We are focused on providing a wide range of thermal sets and associated technologies, with leading market positions in all key markets served. The total global market for thermos resins is approximately $34 billion in annual sales, of which our primary markets represent approximately $19 billion in annual sales. Our products are used in thousands of applications and sold to various markets, such as forest products, architectural and industrial paints, packaging, consumer products and automotive coatings, as well as higher growth markets, such as composites, UV-cured coatings and electric laminates. As of December 31, 2005, we had 86 production sites globally and produce many of our most important products locally in North America, Latin America, Europe and Asia. Through our worldwide network of strategically located production facilities, we serve more than 10,000 customers in 100 countries. We believe our global scale brings us significant advantages over many of our competitors. In areas where there is an advantage, we are able to internally produce strategic raw materials, which gives us a lower cost operating structure and security of supply. In other areas, where we can leverage our technical knowledge and market presence to capture extra value, we are integrated downstream into product formulations. Our position in certain additives, complementary materials and services enables us to leverage our core thermos kit technology and provide customers with a wide range of product solutions. Our global customers include leading companies in their respective industries, such as 3M, Ainsworth, Ashland Chemical, BASF, Bayer, DuPont, GE, Halliburton, Honeywell, Huntsman, Louisiana Pacific Owens Corning, PPG Industries, Sumitomo, Sun Chemicals, Valspar and Weyerhaeuser. Our organizational structure is based on the products we offer and the markets we serve. During the fourth quarter of 2005, we changed our reportable segments to better reflect the transition from the previous organization of our pre-merger companies to our organizational structure in the latter half of 2005. The transition provides greater adjustment with the respective operating divisions and reporting segments. On December 31, 2005, our organisational structure consisted of operating divisions: Epoxy and phenolic resins, formaldehyde and forest products resins, coatings and inks and performance products. A brief summary of the operating divisions, which are in line with the company's reportable segments, is as follows: • Epoxy and phenolic resins: Includes operations mainly from dissolution performance and Bakelite legacy companies and phenolic resins operation from Borden Chemical legacy company. Large 41 Table of Contents products include epoxy resins and intermediates, casting compounds, versa acids and derivatives, phenolic resins and epoxy coating resins. • Formaldehyde and forest products Resins: Includes formaldehyde and forest products that are mainly operated by the Borden Chemical legacy company. Large products include forest products resin and formaldehyde applications. • Coatings and inks: Includes the operation of the resolution specialty older company. Major products include composite resins, polyester resins, acrylic resins, alkyd resins and ink resins and additives. • Performance products: Includes oilfield products and foundry applications operations from Borden Chemical legacy company. Major products include phenolic encapsulated substrates for oilfield services applications and foundry applications. All historical segment information included herein has been reworked to match our current segment reporting. The changes in previously reported segment information are simply a reclassification of activity among our segments, and they do not affect any of our previously reported consolidated results. We began implementing further improvements to our operations departments in 2006 to connect similar products more closely, minimize divisional boundaries and improve our ability to serve common customers from legacy company relationships prior to the merger, which could lead to further improvements in our reporting segments. Industry relations. As is true for many industries, our results are influenced by the impact on our customers of economic recovery or recession, as well as the impact on our own costs to produce, sell and deliver our products. Our customers use most of our products in their manufacturing processes; Therefore, factors that affect their industries can significantly affect our performance. Major industries operated by us include industrial/marine, construction, consumer/durable goods, automotive, electronics, architectural, civil engineering, repair/remodeling, graphic art and oil and gas field support. Key drivers for our business are general economic and industrial growth, residential construction, automotive developments, furniture demand, active gas drilling rigs, demand for printed advertising and chemical intermediate operating conditions. After a relatively flat demand for our epoxy resins in 2002 and 2003, demand for our epoxy resins in 2004 increased significantly and demand through 2005 was strong. On way became the pricing environment for our epoxy resins resins influenced by increased demand and lack of availability of raw materials in some segments of the market. From 1997 to 2000, demand for bisphenol-A (BPA), a key precursor in the production of epoxy resins, increased by about 13% per year driven mainly by polycarbonate end use (electronics, computer, telecommunications and computer equipment), while from 2000 to 2004 the average growth rate was about 6%. In 2004 there was a strong increase in global BPA demand mainly driven by stronger production rates. Compared to 2003, the estimated demand growth has again approached 13%. More importantly, in the second half of 2004, the resulting density in supply and demand allowed for margin expansion despite the fact that the prices of phenol (BPA main raw material) have seen significant increases in 2004. Global demand through 2005 was strong, and we activated a previously idle reactor in 2005 to help meet this demand. Raw material costs. Raw material costs account for approximately 80% of our product costs. In 2005, we bought about $3 billion of raw materials. The three largest raw materials used in our production process are phenol, methanol and urea, representing 49% of our total raw material expenditures. High energy costs such as the rising price of crude oil and associated petrochemical products and the higher cost of natural gas have led to significant increases in raw material costs. For example, compared to the average price in 2004, the average price of phenol, methanol and urea increased by about 15%, 16% and 26%, respectively. In 42 table of contents 2004 the average price of phenol, methanol and urea increased by 48%, 7% and 19% respectively. To help reduce this volatility, we have purchase and sales contracts with many of our suppliers and customers with periodic price adjustment mechanisms. For example, in our North American forest products business, about 60% of our sales are to customers who have contracts that allow the passage of increases in raw material costs on average within 30 days. Due to differences in the timing of the price mechanism trigger points between our sales and purchase contracts there is often a lead-layer impact where margins are adversely affected in the short term during periods of rising commodity prices and positively affected during periods of falling commodity prices. In addition, the passage of commodity price changes can lead to significant deviations in sales comparisons from year to year. In 2005 and 2004 we had a beneficial impact on sales as commodity price increases through 2004 and 2005 were passed on to customers. Phenol prices have risen in North America in the first quarter of 2006. In addition, methanol prices have risen in North America in the first quarter of 2006, and there are limited, if any, price reductions expected in the rest of 2006. Urea prices are expected to remain high to historical levels in the long term. Regulatory environment. National and international laws regulate the production and marketing of chemical substances. Although almost all countries have their own legal procedure for registration and import, the laws and regulations of the European Union and the United States are most significant to our business, including the European inventory of existing commercial chemical substances, the European list of notified chemical substances, and the United States Toxic Substances Control Act inventory. Chemicals that are on one or more of the above lists can usually be registered and imported without further testing in other countries, although there may be several administrative obstacles. We are also subject to comprehensive regulation under the environmental and health and safety laws of federal, state and local authorities and foreign governments, such as the EU. These laws are designed to protect workers and the public from exposure to certain hazardous chemicals and hazardous working conditions, to protect natural resources and to limit the release of hazardous substances to the environment from ongoing operations. They provide significant fines and potential criminal penalties for violations. They also establish requirements for rectification of pollution. The laws are complex, often change and have tended to become stricter over time. For example, statutes such as the Federal Comprehensive Environmental Response, Compensation, and Liability Act and comparable state and foreign laws impose strict, common and additional responsibilities for investigating and rectifying the consequences of emissions and other discharges of hazardous materials, substances and waste at current and former facilities, and at third-party landfill sites. Therefore, despite our commitment to environmental management, we cannot assure you that environmental, health and safety obligations will not be incurred in the future, nor that such obligations will not result in a materially negative effect on our financial condition, results of operations or business reputation. Certain chemicals have been purported to interact with endocrine systems of humans and wildlife and disrupt normal processes (that is, endocrine disrupters). BPA, which is used as an intermediate at our Deer Park and Perni's production facilities and is also sold directly to third parties, is currently under review as an endocrine disrupter. According to EU Regulation 793/93/EC, BPA manufacturers are currently conducting a comprehensive toxicology test programme for the chemical. In addition, new legislation in Europe came into force in 2005 and requires that risk labels be used for BPA indicating possible risk of decreased fertility. 2 BPA further regulated, it is likely to incur additional operating costs to meet stricter regulation of the chemical. Various government agencies conduct formaldehyde health and assess the need for additional regulations. Although formaldehyde has been heavily regulated for several years, further regulation of 43 table of contents formaldehyde can follow over time. In 2004, the International Agency for Research on Cancer (IARC) reclassified formaldehyde as carcinogenic to humans, a higher classification than previous IARC evaluations based mainly on a study linking formaldehyde exposure to nasopharyngeal cancer, a rare form of cancer in humans. IARC also concluded that there was strong but insufficient evidence for a finding, of a link between leukemia and occupational exposure to formaldehyde, although IARC could not identify a mechanism of leukemia induction. We believe that our production facilities will be able to comply with any probable regulatory consequences without any material impact on the business. We support proper scientific research and risk-based policy decisions, and we work with industry groups including Formaldehyde Council, Inc. (FCI), to ensure that state assessments and regulations are based on good scientific information. As part of this work, fci is currently funding additional health research to supplement the existing science database. Results from some of this work will be available in 2006. We have leading product development technologies and processes and credible management programs in place to deliver compatible and cost-effective resin systems to our customers. We also actively ask the US Food and Drug Administration to sanction the use of certain special chemicals produced by us, mainly where we believe that these specialty chemicals will or may be used by our customers in the production of products that will come into direct or indirect contact with food. Delays in getting our product to market may apply. Competitive environment. The chemical industry has been historically very competitive and we expect this competitive environment to continue for the foreseeable future. We compete with companies of varying size, financial strength and availability of resources. Price, customer service and product performance are the primary areas where we compete. The impact of Hurricanes Katrina and Rita. During the third quarter of 2005, our operations in the Gulf Coast region of the United States were affected by Hurricanes Katrina and Rita. Our Norco, LA and Deer Park, TX facilities incurred minimal damage from the hurricanes; However, the facilities were closed for 45 and 14 days after the hurricanes respectively due to repairs at facilities that provide us with utilities. Our facilities in the Gulf Coast escaped significant damage from Hurricane Rita, and although our facilities in the region were shut down in anticipation of Hurricane Rita, no one remained closed for repair after the storm. Our results from 2005 were also significantly affected by the hurricanes. About $27 of lost sales and incremental related to the hurricanes negatively affected our operating income in the second half of 2005 of which $17 was incurred in the fourth quarter. These incremental expenses included higher costs for key raw materials, plant downtime, supply chain and other logistical disruptions and displaced employees. Other factors that affect our results. Other pressures on our margins include increasing usage costs and increasing employee benefit, general insurance and legal costs. We are taking a number of steps to control these costs. In addition, we continue to analyze our business structure, consolidate plants and features where we can realize significant cost savings and productivity gains. Future consolidations or productivity initiatives may include write-down costs and closing costs. We believe that these factors will continue for the foreseeable future. These market dynamics will require us to continue to focus on productivity improvements and risk-reducing strategies to improve and protect our margins. For a discussion about certain measures we take to address factors that affect our margins through hedges of natural gas and currency exposures, see quantitative and qualitative disclosure about market risk. Hexagon formation Combinations. On May 31, 2005, Resolution Performance and Resolution Specialty was combined with and into Borden Chemical (Combinations), all of which were controlled by Apollo Management, L.P. and its affiliates (Apollo). In connection with the combinations, minority interests in Resolution Performance and Resolution Specialty were eliminated. Upon completion of the combinations, Borden Chemical changed its name to Hexion Specialty Chemicals, Inc. and BHI Acquisition LLC, Borden Chemical's parent, changed its name to the Hexion LLC. Borden transaction. On 12 August 2004, a subsidiary of Apollo acquired all the outstanding capital holdings of Borden Chemical (Borden Acquisition). The Borden acquisition, the related offering of second priority senior secured floating interest notes (Original Floating Interest Notes) and 9% second priority senior secured notes (Fixed Interest Notes) and the related transactions are collectively referred to in this prospectus as the Borden transaction. The resolution performance transaction. On November 1, 2000, an associated Apollo received control over the resolution performance in a recapitalization transaction (the resolution performance transaction). Prior to the recapitalisation, Resolution Performance was a wholly owned subsidiary of Royal Dutch/Shell Group of Companies (Shell). The solution special transaction. On August 2, 2004, Resolution Specialty, a subsidiary of Apollo, acquired the Resin, Ink and Monomers Division (Resolution Specialty Acquisition) of Eastman Chemical Company (Eastman). The resolution special unit and the related transactions are collectively referred to in this prospectus as Solution specialty transaction. Bakelite transaction. On April 29, 2005, a subsidiary of Borden Chemical Bakelite (Bakelite Acquisition) acquired the company. At the completion of Bakelite Acquisition, Bakelite became an indirect, wholly owned subsidiary of Hexion Specialty Chemicals Canada, Inc. (Hexion Canada). The Bakelite acquisition was financed through a combination of available cash and loans under a bridge loan facility, which was refinanced with the proceeds from our second priority senior secured floating interest notes issued on 20 January 2015. The Bakelite acquisition, repayment or assumption of certain of Bakelite's debt in connection with this, and bakelite financing are collectively referred to in this prospectus as Bakelite Transaction. Cases that affect the comparability of results basis for presentation. The revised consolidated financial statements include the company's and its majority-owned subsidiaries, where minority shareholders have no significant participant rights, after the elimination of intercompany accounts and transactions. The company's share of net earnings of 20% to 50% 44 table of contents-owned companies, which the company has the ability to exert significant influence over operating and fiscal policy (but not control), is included in income on an equity basis. Investments in the other companies are carried at cost. Resolution Performance, Borden Chemical and Resolution Specialty was considered entities under the joint control of Apollo as defined in EITF 02-5 Definition of Joint Control in Relation to FASB Statement on Financial Accounting Standards (SFAS) No. As a result of the combinations, the financial statements of these entities are presented retroactively on a consolidated basis in a manner similar to a pooling of interests, and include the results of the operation of each business only from the date of the acquisition of Apollo. The hexion economic data for the year ended September 31, 2015 The financial data for Hexion for the year ended December 31, 2004, include: • The results of the operation of Resolution Performance for the full year ended December 31, 2004, • The results of the operation of Resolution Specialty since the date of the acquisition of Resolution Of Specialty Apollo on August 2, 2004, and • The results of the operation of Borden Chemical since the acquisition of Borden Chemical by Apollo on August 12, 2004. The financial data for Hexion for the year ended December 31, 2005 include: • The results of the operation of Resolution Performance for the full year ended December 31, 2005, • Results of operations of Borden Chemical for the full year ended December 31, 2005, • Results of operations of Resolution Specialty for the full year ended December 31, 2005, • Results of operations of Resolution Specialty for 31 December 2005 and • Results of the operation of Bakelite since the Bakelite acquisition was completed on 29 December 2005. Therefore, the results of Hexion's business in periods prior to the Borden Chemical and Resolution Specialty acquisitions and the Bakelite acquisition cannot be compared to results for subsequent periods. To improve comparability, management's discussion and analysis of financial condition and results of operations includes additional additional data on our reportable segments for the years ended 31, 2006 Completed acquisitions on 31 January 2006. The Rhodia business had 2004 sales of about $180, with 8 manufacturing facilities in Europe, Australia and Thailand. The acquisition was financed through a combination of available cash and existing lines of credit. On March 30, 2006, we acquired the global wax connection business of Rohm and Haas. The purchase included Rohm and Haas' wax connections technology and product lines, manufacturing equipment and other business assets. The acquisition was financed through available cash. Outlook We have experienced an improvement in demand in the markets we serve and expect to see continued improvement in demand in 2006. Basic supply/demand is expected to improve, both in industrialised and developing countries. We expect that this trend will lead to higher utilization rates for the thermosetting resin industry, which in turn will lead to continued price increases. Furthermore, we feel that the formation of Hexion will continue to lead to improved technical capabilities for the combined devices and an ability to serve our customers better. However, commodity volatility can continue through 2006 due to, among other things, political instability in the Middle East or supply disruptions elsewhere, partly as a result of hurricanes and other natural disasters, such as Hurricanes Katrina and Rita. It cannot be guaranteed that (i) any global recovery will continue during 2006, (ii) we will be able to realize the margins we have historically achieved as raw material costs decrease or (iii) our raw material costs will not rise faster than our product prices and therefore reduce our margins. We believe we will be able to reduce such volatility due to a number of factors: (i) our measures implemented in 2005 to implement monthly or quarterly pricing mechanisms in many product lines will improve our ability to 45 Table of Contents respond to changing market conditions in 2006; (ii) the value-added nature of many of our product lines will allow us to continue to pass through additional raw material price increases; and (iii) the rollout of several long-term commodity contracts should have a step-by-step effect in reducing our raw material costs. It cannot be guaranteed that (i) demand for our products will increase during 2006 or past or future price increases by us or our competitors will be accepted by our customers, or that we will not lose any significant customers or volumes in the future as a result of these price increases. We expect to generate increasing free cash flow (cash flow from operating activities less expected capital expenditures) in the future due to improved operating capabilities and the absence of

one-time costs associated with the Hexion formation. Our products are generally less capital intensive to produce than many other products in the chemical industry, and as a result we have relatively low maintenance capital and moderate working capital requirements. Furthermore, due to our income tax funds and other structuring considerations, we expect to have very low cash tax requirements for the foreseeable future. In addition, management is currently targeting $250 million in synergies from the Hexion formation, of which $125 million of net cost savings are specifically identified, which should further improve free cash flow. Our plan indicates that our $250 million synergy target will consist of approximately 40% in purchasing savings, 20% in production efficiency, 15% in sales, general and administrative expense savings, and 25% in new product development and global product line management. Management has developed detailed implementation plans to achieve $125 million of cost savings. We achieved cost savings of $20 million in 2005. We expect that approximately 60% of the $125 million near term cost savings will be achieved by the end of 2006 with the rest expected to be achieved in the following year. We expect to incur one-time costs of $75 million in connection with the implementation of these synergies. We expect that all of these factors will enable us to generate increased free cash flow, which we expect will be available to reduce debt or for other strategic purposes. 46 Table of Contents Overview of results Our net sales increased to $4470 in 2005 from $2019 in 2004, an increase of $2,451. In 2005, borden transaction, Resolution Specialty Transaction and Bakelite Acquisition (2005 acquisitions) added $2,195 in incremental net sales. With the exception of the incremental effect of the acquisitions in 2005, our net sales increased $256 in 2005, or about 13%. This increase is primarily due to increased average sales prices, as a result of price improvement and the passage of commodity price increases, and favorable product mix. Our gross profit increased $428 in 2005 from $234 in 2004 to $662. The acquisitions in 2005 added $309 in incremental gross profit in 2005. With the exception of the impact of these acquisitions, gross profit increased $119 in 2005, or about 51%, as the impact of increased average selling prices and favorable product mix more than offset the increase in commodity prices and higher natural gas costs. Our operating income increased $199 in 2005 from $9 2004 to $208. This improvement was primarily driven by the improvement in gross profit discussed above. Also contributing to the improvement was a $12 reduction in transaction-related costs. To counteract these improvements was an increase in sales, general and administrative expenses (SG&amp; A) at $237. The acquisitions in 2005 amounted to $188 of this increase in SG & A. We also recognized stock-based compensation costs of $12 in 2005. Our net loss improved by $18 to a loss of $87 in 2005 from a loss of $105 in 2004. This improvement is primarily due to improvement in operating revenues discussed above. Partially counteracting the increase in operating income was increased interest expense of $87 due to high average debt levels and higher interest rates, a $17 write-down of deferred financing fees and an increase in non-operating costs mainly due to currency losses. We also incurred a tax charge of $48 in 2005. In addition, we incurred a loss of USD 9 related to discontinued operations. 47 Table of Contents Results of operations by segment follow a comparison of Net Sales and Segment EBITDA. Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash and one-time costs. Segment EBITDA is the primary performance measure used by the Company in evaluating operating results and in determining allocations of capital resources among our segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation. Corporate and Others mainly represent certain group general and administrative expenses that are not allocated to the segments. The year ended 31 September 2015 2005 2004 2003 Net sales to unaffiliated customers (1)(2): Epoxy and phenolic resins $1909 $1096 $782 Formaldehyde and forest products resin 1281 458 - Coatings and inks 886 325 — Performance products 394 140 — $4.45470 $ 2019 $782 Segment EBITDA (2): Epoxy and Phenolic resins $245 $93 $61 Formaldehyde and Forest Products Res 152 51 — Coatings and inks 63 26 — Performance products 52 16 — Companies and Others (43) (10) — (1) Intersegment sales are not significant and , as such, is eliminated within the sales segment (2) Net sales and Segment EBITDA in 2005 include Bakelite results from the date of acquisition, April 29, 2005. Net sales and segment EBITDA in 2004 include Resolution Specialty results from August 2, 2004 and Borden Chemical results from August 12, 2004, their respective dates for acquisition of Apollo. 2005 vs. 2004 Segment Results Epoxy and Phenolic Resins Epoxy and Phenolic Resins' Net Sales increased by $813 to $1,909 compared to 2004. The Bakelite acquisition and the Borden transaction contributed $629 in incremental net sales in 2005. With the exception of the incremental effect of the acquisitions, net sales increased $184, or 17%, as a result of increased average sales of 48 table of contents prices and favorable product mix, partially offset by reduced volume. General sales prices increased from the previous year due to increased pricing. Total volume decreased from the previous year due to increased emphasis on price improvement versus volume growth. Epoxy and phenolic resins segment EBITDA increased by $152 to $245 compared to 2004. The Bakelite acquisition and the Borden transaction contributed $59 in incremental EBITDA segment in 2005. With the exception of the incremental effect of these acquisitions, Segment EBITDA increased $93, or 100%, as a result of increased average sales prices and favorable product mix, as discussed above. Hurricanes Katrina and Rita negatively affected their results by about $13 due to incremental costs associated with closing and starting plants and higher utility and raw material costs. Formaldehyde and Forest Products resin Formaldehyde and Forest Products Resins' net sales increased by $823 to $1,281 compared to 2004. The Borden transaction and bakelite acquisition contributed $802 in incremental net sales in 2005. With the exception of the incremental effect of these acquisitions, net sales increased $21 or 5%. This increase in net sales is the result of strong pricing for our resins and formaldehyde products due to the passage of commodity price increases. Favorable currency translation of about $7, as both the Canadian dollar and the Brazilian Real strengthened versus the U.S. dollar, also contributed to the net sales increase. The partial offset of these beneficial elements was a reduction in volumes primarily in our formaldehyde products caused by hurricane-related customer violations. Formaldehyde and Forest Products Resins' Segment EBITDA increased by $101 to $152 compared to 2004. The Borden transaction and bakelite acquisition contributed $97 in incremental EBITDA segment in 2005. Excluding the impact of these acquisitions, Segment EBITDA increased $4, or 8%, as a result of strong prices for our resins and formaldehyde products due to the passage of commodity price increases. In 2004, we experienced unfavorable lead/lag as commodity prices increased, and we could not pass these price increases to our customers. The positive pricing affects more than offset the impact of lower formaldehyde volumes as discussed above. Hurricanes Katrina and Rita negatively affected Segment EBITDA by about $10 in 2005 due to lost sales and incremental costs related to the closure and restart of plants and higher utility and raw material costs. Coatings and ink coatings and inks' net sales increased by $561 to $886 compared to 2004. Resolution Specialty Transaction contributed $525 of incremental sales in 2005. Excluding the impact of the solution special transaction, net sales increased $36 or 11%. This increase in net sales is the result of strong prices across all our products, as well as favorable product blending. Occupancy and ink segment EBITDA increased by $37 to $63 compared to 2004. The Resolution Special contributed $42 in incremental Segment EBITDA in 2005. Excluding the impact of the resolution specialty transaction, Segment EBITDA decreased $5 or 19%. Hurricanes Katrina and Rita negatively impacted 2005 Segment EBITDA by about $3 due to incremental costs associated with higher utility and raw material costs. Performance products Performance products net sales increased by $254 to $394 compared to 2004. The Borden transaction contributed $239 in incremental sales in 2005. Excluding the impact of the Borden transaction, net sales increased $15 or 11%. This increase in net sales is due to increased volumes in our foundry products, improved prices in Asia Pacific and beneficial product mix in our oilfield products. Improved foundry volumes were driven by higher non-automotive demand. The increased price in Asia Pacific is due to the passage of commodity price increases. Performance Product's Segment EBITDA increased by $36 to $52 compared to 2004. The Borden transaction contributed $28 in incremental Segment EBITDA in 2005. Excluding the impact of the Borden transaction, Segment EBITDA increased $8, or 50% due to factors discussed above, as well as lower processing costs in the Asia-Pacific. Hurricanes Katrina and Rita negatively impacted Segment EBITDA by about $1.49 Table of Contents Corporate and other corporate and other expenses increased by $33 to $43 compared to 2004 as a result of the Borden transaction and combinations. Prior to the combinations, Resolution Performance and Resolution Specialty included their corporate and other expenses in their previously reportable segments' profitability targets that were used in evaluating operating results and in determining allocations of capital resources. Upon completion of the combinations, we began to consolidate the corporate functions of the four previously legacy businesses, and certain general and administrative expenses are not allocated to our segments. 2004 vs. 2003 Segment Results Epoxy and Phenolic Resins Epoxy and Phenolic Resins' Net Sales increased by $314 to $1,096 compared to 2003. The Borden transaction contributed $100 in incremental net sales in 2004. Excluding the impact of the Borden transaction, net sales increased $214, or 27%. The increase in net sales (net of the impact of the Borden transaction) was the result of higher average prices ($157) and increased volumes ($57). The increase in the average price is primarily due to price increases on some products and the impact of a weaker dollar on our euro-denominated sales. Segment EBITDA increased by $32 to $93 for the year ended December 31, 2004. The Borden transaction contributed $10 in incremental Segment EBITDA. Excluding the impact of the Borden transaction, Segment EBITDA improved $22. The increase is primarily due to higher sales prices across all major product lines. Also contributed to the increase was higher total volumes in 2004. Partial offset of these were increased costs for raw materials due to the increasing price of crude oil and associated petrochemical products. Formaldehyde and forest products Resin formaldehyde and forest products Resin's net sales in 2004 and Segment EBITDA are the result of the Borden transaction. Coatings and ink coatings and ink net sales and Segment EBITDA in 2004 are the result of the resolution specialty transaction. Performance products' net sales in 2004 and Segment EBITDA for performance products are the result of the Borden transaction. Corporate and Other Corporate and other costs in 2004 are the result of the Borden transaction. Resolution Performance previously included its corporate and other expenses in their previously reportable segments' profitability targets that were used in evaluating operating results and in determining distributions of capital resources. Upon completion of the combinations, we began to consolidate the corporate functions of the four previously legacy businesses, and certain general and administrative expenses are not allocated to our segments. 50 Table of Contents Reconciliation of Segment EBITDA to Net Loss: Year Ended December 31, 2005 2004 2003 Segment EBITDA: Epoxy and Phenolic Resins $ 245 $ 93 $ 61 Formaldehyde and Forest Products Resins 152 51 — Coatings and Inks 63 26 — Performance Products 52 16 — Corporate and Other (43) (10) — Reconciliation: Items not included in Segment EBITDA Transaction costs (44) (56) — Non-cash charges (30) (2) (13) Unusual items: Purchase accounting effects/inventory step-up (16) (10) — Discontinued operations (9) — — Business realignments (9) (3) — Other (31) (7) — Total unusual items (65) (20) — Total adjustments (139) (78) (13) Interest expense, net (204) (117) (77) Write-off of deferred financing fees (17) — — Income tax benefit (expense) (48) — 37 Depreciation and amortization (148) (86) (58) Net loss $ (87) $ (105) $ (50) Items not included in Segment EBITDA Transaction costs include merger costs related to the Bakelite Acquisition and the Combinations and expenses associated with terminated acquisition activities. Non-cash charges represent write-downs of tangible fixed assets and goodwill, share-based compensation and unrealized foreign exchange losses on debt instruments denominated in currencies other than the functional currency of the holder. The insecurities adjustment for purchase accounting/inventory stage for 2005 is related to the fair value stage of the resolution performance's inventory value as a result of combinations and fair value upstage of Bakelite's stock bearing value as a result of the Bakelite acquisition. The 2004 purchase accounting effects/inventory incremental adjustment is related to the fair value stage of Resolution Specialty's inventory value as a result of the solution special transaction. The results of discontinued operations are not included in our Segment EBITDA target (see Note 4 to the revised financial statements). The adjustment of the business represents construction closure costs, including construction employees' final consideration, and environmental remediation costs related to closing time, as well as other employees' final considerations. Other unusual items not included in Segment EBITDA represent expenses that management considers non-recurring. In 2005, these elements consisted mainly of certain non-recurring litigation expenses, a loss in foreign currency on an exchange rate hedge related to Bakelite Acquisition, integration costs and incremental non-recurring advisory and external audit fees related to the Bakelite acquisition and combinations. In 2004, other unusual records included incremental expenses incurred as a result of a mechanical failure at a Brazilian formaldehyde plant and costs related to the integration of the Specialty Transaction. 51 Table of Contents Non-operating expenses and tax expense Non-operating expenses The year ended 31 September 2015 2005 2004 2003 Interest expense, net $204 $117 $77 Impairment of deferred financing fees 17 - Other non-operating expenses, net 16 5 -$237 $122 $77 Our total non-operating expenses, net, increased $115 in 2005 compared to 2004. Net interest expense increased $87 over 2004 due to higher interest rates and higher average debt levels as a result of the Borden transaction, Resolution Specialty Transaction, Bakelite Acquisition and Hexion Financing. In the second quarter of 2005, we wrote down deferred funding fees of $17. Of this amount, $6 was related to the Bakelite Acquisition bridge funding scheme and $11 related to the early termination of Resolution Performance, Resolution Specialty and Borden Chemical credit facilities. Included in other non-operating expenses in 2005 were $9 of currency losses on settlement of a conditional futures contract held by us related to Bakelite Acquisition and an unrealized loss of $10 related to a US dollar denominated $290 term loan on a Dutch subsidiary books. Our total non-operating expenses increased $45 in 2004 compared to 2003. Interest expense increased $40 over 2003 due to higher average debt balances and interest as a result of our issuance of the original floating interest notes and fixed-rate notes in August 2004 as part of the Borden Transaction and Resolution Specialty Transaction (see - Liquidity and capital resources), April 2003 issuance of $200 of 9 1/2% Senior Second Secured Notes due 2010 and refinancing of the credit agreement in the second and fourth quarter of 2003. Tax expense (benefit) Year ended December 31, 2005 2004 2003 Tax expense (benefit) $ 48 $ - $ (37) Effective tax rate - - - Despite a loss from continuing operations before income tax of $29 the company recognized $48 of income tax charge in 2005. The federal tax benefit of the company's domestic losses (calculated at the federal statutory tax rate) and the release foreign valuation deductions were more than offset by (i) an increase in the domestic valuation allowance, (ii) foreign income tax on a foreign income tax on the settlement of an intercompany loan, (iii) increases in provisions related to state and foreign tax preparations, and (iv) non-lewd expenses, mainly related to the combinations. Income tax expense in 2004 reflects a federal income tax benefit calculated at the federal statutory rate, offset by a provision on taxes related to the unpatriated earnings of foreign subsidiaries. This provision was based on management's decision that foreign earnings could no longer be considered permanently invested after the Borden transaction. This additional provision allowed the company to release previously granted valuation deductions against its deferred tax benefits. The provision also reflects a write-down of net operating losses, offset by an advantage related to a change in a foreign adopted tax rate. The consolidated tax expense in 2003 reflects a federal tax benefit calculated at the federal statutory rate. Tax laws. In 2004, the American Jobs Creation Act of 2004 was signed into law. This law effectively phases out benefits from the exploitation of foreign sales companies, reduces the number of foreign tax credits 52 tax categories for table of contents, creates a temporary incentive for U.S. companies to repatriate foreign earnings to a significantly reduced effective U.S. tax rate and domestically provides a variety of revenue-enhancing and reducing provisions in the taxation of companies. Our management does not expect a material impact on the Company as a result of this legislation. Additional data The supplementary segment information presented and discussed below includes the combination of predecessor and successor accounting for the individual entities that were the predecessors of the combined company, Hexion, providing what management believes is a meaningful way to analyze the performance of the combined companies on a comparable period basis. December 1, 2005 Epoxy andPhenolicResins Formaldehydeand ForestProductsResins Coatingsand Inks PerformanceProducts Corporateand Other Proformma Net Sales $2,139 $1298 $886 $394 $ - Pro forma Segment EBITDA 253 156 63 52 (43) Year ended December 31, 2004 Pro forma Net Sales $1,857 $1,141 $765 342 - Proformma Segment EBITDA 152 143 60 38 (29) Epoxy and Phenolic resins Proforma net sales increased $282, or 15%, to $2,139 in 2005 compared to the previous year. This increase in Proformma Net sales is the result of increased average prices, partially offset by reduced volume. Average prices increased while volumes decreased due to increased emphasis on the management of prices versus volume. Pro forma Segment EBITDA increased $101, or 66%, to $253 in 2005 compared to 2004. This EBITDA improvement in the Pro forma Segment was driven by the increase in mean more than outweighed higher prices of raw materials due to the rising prices of crude oil and associated petrochemical products and natural gas. Hurricanes Katrina and Rita negatively affected their 2005 results by about $13 due to incremental costs associated with closing and restarting plants and higher utility and raw material costs. Formaldehyde and Forest Products Resins Pro forma net sales increased $157, or 14%, to $1,298 in 2005 compared to 2004 driven by increased pricing and favorable currency translation, partially offset by lower volumes. The increase in pricing was due to the review of higher raw material costs to our customers. The favourable currency translation was due to the strengthening of the Canadian dollar and the Brazilian real versus the US dollar. The decrease in volumes was primarily in our formaldehyde products caused by hurricane-related customer failure. Pro forma Segment EBITDA increased $13, or 9%, to $156 in 2005 compared to 2004. The ebitda improvement for pro forma Segment was driven by the factors discussed above. Hurricanes Katrina and Rita negatively affected Pro forma Segment EBITDA by about $10 in 2005 due to incremental costs associated with the closure and restart of plants and higher utility and raw material costs. Occupancy and Inks Pro forma net sales increased $121 in 2005 to $886 from 2004, a 16% increase. This increase is primarily due to higher average sales prices across all our products, as well as favorable product mix. Pro forma Segment EBITDA increased $3 in 2005 from 2004. The improvement was driven by the positive factors discussed above partially offset by about $3 of incremental costs associated with higher utility and raw material costs resulting from Hurricanes Katrina and Rita. 53 Table of Contents Performance Products Pro forma net sales increased $52 in 2005 compared to 2004, an increase of 15% as a result of improved volumes, higher average sales prices and favorable product mix. Our foundry products volumes increased driven by higher non-automotive demand. Higher average sales prices, mainly in the Asia-Pacific, were due to the review of commodity price increases. Our sales were positively affected by the beneficial product mix in our oilfield products. Pro forma Segment EBITDA increased $14 in 2005, an increase of 37% compared to 2004. The increase in Pro forma Segment EBITDA was primarily a result of the positive factors discussed above, as well as lower treatment costs in Asia Pacific. Hurricanes Katrina and Rita negatively affected Pro forma Segment EBITDA by about $1. Cash flows Cash delivered by (used in): Year EndedDesember 31, 2005 2004 2003 Operating activities $171 $ (32) $ (43) Investment activities (354) (3 54) (354)20) 7 Financing activities 219 148 80 Effect of exchange rates on cash flow (5) 7 1 Net change in cash and equivalents $ 31 $ 103 $ 45 Operating activities In 2005, our operating activities cash at $171. Net loss, adjusted for non-cash items, amounted to $120 and net trading capital generated cash of $37, due to improved customer management. We made net cash tax payments of $8 in 2005. In 2004, we used net cash for operating activities of $32. Costs related to the Borden transaction of $46 more than offset improvements in other operating income. Increases in other assets, which were partially offset by increases in other debt, used net cash of $12. Working capital remained flat as the increase in trade receivables and inventories was offset by increases in supplier accounts. Our 2003 operating activities spent cash of $43. This includes cash used by operations of $24 and of net trading capital (trade receivables, inventory and suppliers) of $27. Our negative cash flow in net trading capital is due to increased raw material costs in 2003. Investment activities Our investment activities spent cash of $354 in 2005. We spent $252 for acquisitions of Bakelite and Pacific Epoxy businesses and $105 for capital expenditures, primarily for plant extensions and improvements. Our net investment activities in 2004 spent cash of $20. We spent cash of $57 for capital expenditure primarily for plant extensions, SAP implementation at Resolution Specialty and other improvements. We paid $152 related to Resolution Specialty acquisition activity, net of cash acquired, and received $185 related to cash held by Borden Chemical at the time it joined the combined group. Our net investment activities in 2003 yielded cash of $7. We spent $18 for capital expenditures, primarily for plant expansions and improvements. We realized revenue of $23 on the sale of forty percent of the outstanding shares in Japan Epoxy Resins Co., Ltd. to Resolution Performance joint venture partner, Mitsubishi Chemical Company. 54 Table of Contents Financing activities In 2005, our financing activities cashed in at USD 219. Net cash flow generated by financing activities was mainly due to long-term debt loans of $1,193 consisting of $150 senior secured notes and the $500 loan under hexion Credit Facility and loans under a bridge facility for Bakelite Acquisition (see - Liquidity and Capital Resources). These loans were partially offset by net debt repayment of $752 and debt financing fees paid by $22 related to the financing. We paid a dividend of $523, which was funded through net income received from the issuance of preferred stock of $334 and from amounts borrowed under the Hexion Credit Facility. We have also made payments of $11 for costs related to our proposed IPO. Our financing activities in 2004 yielded cash of $148. Net cash flow generated by financing activities was primarily due to the issuance of debt related to the Resolution Specialty Transaction of $121, offset by net debt repayments of Performance and Borden Chemical at $23. We also received a cash flow of $60 related to Special transaction. Our financing activities from 2003 brought cash of $80. This amount includes net debt loans of $103, offset by the payment of a constructive distribution related to certain pension costs to Shell on behalf of Resolution Performance. Liquidity and capital resources Our primary source of liquidity is cash flow generated from operations. We also have availability under our senior secured credit facilities (see below), subject to certain conditions. Our primary liquidity requirements are debt service, working capital requirements, contractual obligations and capital expenditures. We are a highly leveraged company. Our liquidity requirements are significant, mainly due to our debt service requirements. As of December 31, 2005, we had $2,354 principal amount of outstanding debt, of which approximately $800 amounted to floating interest debt and bank loans and the rest amounted to fixed-rate debt. As of December 31, 2005, there were no out-of-bounds loans under our senior secured revolving credit facility. We also had $183 of cash and equivalents on our balance sheet, as well as unused loan availability under our senior secured revolving credit facility of $221 as of December 31, 2005. Effective October 11, 2005, we entered into a cross-currency agreement and interest rate swap of USD 289 structured for a non-US. subsidiary's $290 U.S. dollar denominated the concept of loans. Swap is a three-year agreement designed to offset balance sheet and interest rate exposures and cash flow variation related to exchange rate fluctuations on the concept of loans. In connection with the Hexion formation, we have declared, but have not yet paid a dividend of $27 to our shareholder, which is expected to be mainly paid in the second quarter of 2007 and is classified into other long-term debt. 55 Table of Contents Senior Credit Facilities In May 2005, we entered senior secured credit facilities and replaced and repaid various credit facilities and liabilities. The six-year $775 senior secured credit facilities have a $225 revolving credit facility, a $500 term loan facility and a $50 synthetic letter of credit facility (LOC). Repayment of 1% total per year of the term loans and synthetic letter of credit facilities must be made (in the case of the concept of loan facility, quarterly, and in the case of synthetic letter of credit facility, annually) with the balance paid at the final due date. Furthermore, we may be required to make further repayments on the concept of loans beginning in the second quarter of 2007 if we generate excess cash flow, as defined in the agreement. Interest with respect to loans to Hexion under our senior secured credit facilities is based on, at your own choice, (a) adjusted LIBOR plus 2.50% or (b) the higher of (i) JPMorgan Chase Bank, N.A.'s (JPMCB) prime rate or (ii) Federal Funds Rate plus 0.5%, in each case plus 1.00%. Interest with respect to loans to the Canadian subsidiary borrower our senior secured credit facilities are based on (a) for loans made in dollars, at your choice, (1) adjusted LIBOR plus 2.50% or (2) the higher of (i) JPMCB's benchmark interest rate for US dollar-denominated loans made in Canada and (ii) the Federal Funds Rate plus 0.5%, in each case plus 1.00% or (b) for loans made in Canadian dollars, after our choice, (1) a Canadian Bankers' Acceptance Rate (depending on the lender, whether the average bankers acceptance rate quoted on the Reuters CDOR page or less of such average plus 0.10% and the average bankers acceptance rate quoted to JPMCB by certain benchmark banks) plus 2.50% or ((2) the higher of (i) JPMCB's Toronto Branch's prime rate and (ii) the average bankers acceptance rate quoted on Reuters CDOR page plus 1/2 of 1% , in each case plus 1.00%. The interest rates with respect to loans to the UK subsidiary borrowers under our senior secured credit facilities are based on (a) for loans made in dollars, at their option, adjusted LIBOR plus 2.50% or the rate quoted by JPMCB as the base rate for such loans plus 1.00%, (b) for loans made in Sterling, at your choice, adjusted LIBOR plus 2.50% or the rate cited by JPMCB as its base rate for such loans plus 1.00% or (c) for loans made in euros, at your choice, EURO LIBOR plus 2.50% or the rate cited by JCBPM as the basis interest rate for such loans plus 1.00%. The interest rates with respect to loans to the Dutch and German subsidiary borrowers under our senior secured credit facilities are based on, at their option, EURO LIBOR plus 2.50% or the rate quoted by JPMCB as the base rate for such loans, plus 1.00%. Our senior secured credit facilities are secured by substantially all of the assets of (i) prior to the initial public offering of our common share, Hexion LLC, which will consist of a perfected first priority pledge of all our capital holdings and (ii) at all times, us and the subsidiary's guarantors, including but not limited to: (a) a first priority pledge, subject to certain exceptions, of all capital holdings held by us or a subsidiary guarantor (as laws, with respect to obligations in relation to the U.S. loans secured by a promise of the holdings of any first-tier foreign subsidiary, shall be limited to 100% of the non-voting shares (if any) and 65% of voting shares in such foreign subsidiaries) and (b) perfection priority security interests in , and mortgages in, substantially all material and intangible assets of us and each subsidiary guarantor.

Notwithstanding the foregoing, (i) assets of foreign subsidiary guarantors only secure liabilities in relation to foreign loans, (ii) the pledge does not include (A) any real estate, inventory or equipment from us or any of our subsidiaries in the United States (except for assets that our Board determines do not constitute the main property under the indentation of our debentures dues 2016, 2021 and 2023) and (B) proof of debt for borrowed money of certain certain held by us or our subsidiaries and (iii) security is subject to certain other exceptions. The credit agreement includes, among other things, restrictive covenants on debt, payments and distributions, mergers and acquisitions, asset sales, associated transactions, capital expenditures and 56 table of contents maintenance of certain financial ratios. Payment of loans under our senior secured credit facilities can be accelerated if there is default. Non-compliance incidents include non-payment of principal and interest when due, a material breach of representation or warranty, covenant standard, bankruptcy events and a change of control. As of December 31, 2005, we had no outstanding loans under the revolving credit facility and $54 outstanding LOCs and had additional borrowing capacity of $221. In the second quarter of 2005, we wrote off deferred financing costs of $17. Of that amount, $6 was related to the Bakelite Acquisition bridge funding scheme, and $11 related to the early termination of Resolution Performance, Resolution Specialty and Borden Chemical credit facilities. This expense is included in the write-down of deferred financing fees on revised consolidated financial statements. Our Australian subsidiary entered into a five-year secured credit facility in the fourth quarter of 2003 (Australian Facility), which provides a maximum borrowing of AUD $15, or about $11. As of December 31, 2005, outstanding debts under this facility were $6, of which $5 is classified as long-term. In addition, there were about $3 of short-term debt under the facility. The Australian facility is secured by liens against substantially all assets in the Australian business, including the holdings of the Australian subsidiaries. As of December 31, 2005, the net book value of the mortgage protection of the Australian facility was approximately $34. In addition, we promised the share of the Australian subsidiaries as collateral for loans under the Australian facility. This facility includes a fixed interest facility used for the acquisition, as well as a revolver. As of December 31, 2005, $6 was outstanding under the fixed-rate facility at an interest rate of 6.4%. The Australian facility contains restrictions on the Australian businesses on dividends, asset sales and additional loans. The Australian facility also contains financial covenants that apply to the Australian subsidiaries, including current conditions, interest rate coverage, debt cover and leverage. The fixed portion of the Australian plant requires minimum quarterly principal reductions totalling AUD$0.5 (about $0.4). The Australian facility requires semi-annual main reductions based on a portion of excess cash as defined in the agreement. On December 31, 2005, the maximum borrowing was allowed The Australian facility was AUD$15 (about $11), of which about AUD$3 (about $2), after outstanding LOCs and other draws, were unused and available. Additional international credit facilities provide availability totaling about $115 as of December 31, 2005. Of this amount, approximately $51 was available to fund working capital needs and capital expenditures as of December 31, 2005. These credit facilities have different expiration dates from 2006 to 2008. Although these facilities are primarily unsecured, parts of the lines are secured with equipment. As of December 31, 2005, the net book value of safety ensured a portion of these facilities was about $10. We guarantee up to $7 of the debt of one of our Brazilian subsidiaries, including in these facilities. HAI entered into a three-year asset-based revolving credit facility in 2004, providing a maximum borrowing of $15 (HAI Facility). The maximum loan allowed under the HAI facility is based on specific percentages of qualified customers and stock and is secured with inventory, customers and property and equipment of HAI. As of December 31, 2005, the net book value of safety that secured the HAI facility was approximately $38. HAI Facility gives up to $2 for LOCs. The HAI facility contains restrictions in relation to HAI on dividends, associated transactions, minimum availability ($2 in 2005), additional debt and capital expenditure ($2 in 2005). In addition, HAI is required to maintain a minimum consecutive twelve-month debt ratio of 1.5 to 1.0 and a monthly debt to permanent capital ratio of less than 2.5 to 1.0. December 2005, loans were allowed under HAI Facility $13 of which $11 was unused and available, subject to minimal availability requirements. 57 Table of Contents Senior Secured Notes In 2003, Resolution Performance and RPP Capital Corporation issued $140 total principal amount of 8% Senior Secured Notes due in 2009 in a private offering. Hexion assumed the resolution performance obligations under the 8% Senior Secured Notes in connection with the consummation of the combinations. The $140 of 8% Senior Secured Notes are senior secured liabilities ranking equal in the right to payment to all our existing and future senior debt and senior in the right to payment with all existing and future subordinate debt. The 8% Senior Secured Notes are secured by a second priority lien subject to permitted liens, on all domestic assets (subject to certain exceptions) that secure liabilities under our senior secured credit facilities and part of the capital holdings of direct and indirect domestic subsidiaries and direct foreign subsidiaries. Interest is paid semi-annually in cash on 15 December and 15 June, from 15 June 2004. December 2009 and may be redeemed in full at any time or partly from time to time, on and after December 2006, to the specified redemption prices stipulated under the related indentation. In 2003, Resolution Performance and RPP Capital Corporation issued $200 total principal amount of 9 1/2% Senior Second Secured Notes due in private offerings. Hexion assumed the resolution performance obligations in accordance with 9 1/2% Senior Second Secured Notes in connection with the consummation of the combinations. The 9 1/2% Senior Second Secured Notes were later exchanged for registered notes in a registered exchange offer. The $200 of 9 1/2% Senior Second Secured Notes is senior secured liabilities ranking equal in the right to payment to all Hexions existing and future senior debt and senior in the right to payment with all existing and future subordinate debt. The 9 1/2% Senior Second Secured Notes are secured by a second priority lien, subject to permitted liens, on all our domestic assets (subject to certain exceptions) that secure liabilities under our senior secured credit facilities and part of the capital holdings of direct and indirect domestic subsidiaries and direct foreign subsidiaries. Interest is paid semi-annually in cash 15 April and 15 October, from 15 October 2003. April 15, 2010 and can be redeemed in full at any time or partly from time to time, on and after April 15, 2006, to the specified redemption prices specified under the related indentation. In connection with the Borden transaction, Borden Chemical formed two wholly owned financial subsidiaries that borrowed a total of $475 through a private debt offer. Of the debt is $325 second priority senior secured notes due 2014 (Fixed Rate Notes), which carry an interest rate of 9%. The remaining $150 of debt is the second priority senior secured floating rate notes due 2010 (Original Floating Rate Notes). The original floating interest rates and fixed-rate notes and guarantees rank equally with all Hexions and the guarantor's existing and future senior debt, including liabilities under Borden Chemical's senior secured credit facilities and their guarantees. The original floating interest notes and fixed-rate notes remain obligations for Hexion after the completion of the combinations. The original floating interest notes and fixed-rate notes are effectively subordinate to such senior secured credit facilities, our 8% Senior Secured Notes and any other future obligations secured by a first priority template (as defined in the indentations that govern such notes) on collateral to the extent the value of the pledge secures such obligations. The original floating interest notes and fixed-rate notes will be ranked senior to all Hexions and its guarantors' existing and future subordinate liabilities, except as described in the preceding statement. The original floating interest rates and fixed-rate notes are also effectively subordinated to the debt of the non-guarantor daughter, which includes HAI. on the original floating interest notes will be paid every January 15, April 15, July 15 and October 15. Interest on the original floating interest rates is incurred at an annual interest rate, reset quarterly, equal to LIBOR plus 475 basis points. As of December 31, 2005, the interest rate on the original floating interest rates was 9.71%. The notes mature july 15, 2010. These notes can be redeemed at any time on or after July 15, 2006 at the applicable redemption price specified in the indentation of the notes. In addition, up to 35% of these notes can be redeemed 58 Table of Contents before July 15, 2006 with cash income from certain share offerings at the current strike price stipulated in the indentation of the notes. The original floating interest notes can also be redeemed by certain changes to tax laws or by a change in control. There is no dwindling fund for the original floating interest rate notes. Interest on fixed-rate notes is paid out every 15 minutes. The notes mature on 15 May 2017. These notes can be redeemed at any time on or after July 15, 2009 at the current strike price specified in the indentation of the notes. In addition, up to 35% of these notes may be redeemed before July 15, 2007 with cash income from certain share offerings at the applicable strike price stipulated in the indentation of the notes. Before July 15, 2009, the fixed-rate notes can be redeemed at a price equal to 100% of the principal amount plus accrued interest plus the make-whole premium as defined in the indentation of the notes. The fixed-rate notes can also be redeemed by certain changes to tax laws or by a change in control. There are no decreasing funds for fixed-rate bills. In May 2005, we issued $150 Second-Priority Senior Secured Floating Rate Notes due 2010 (New Floating Rate Notes). The new floating interest rate notes have substantially the same covenants and events as the original floating interest rate notes. The new floating interest notes were issued at a price of 98.846%. Interest on the new floating interest notes is incurred at an interest rate per year, is reset quarterly, equivalent to LIBOR plus 5.50% and is paid on 15 September 2015. These notes can be redeemed at any time on or after July 15, 2006 at the applicable redemption price specified in the indentation of the notes. In addition, up to 35% of these notes may be redeemed before July 15, 2006 with cash income from certain share offerings at the applicable strike price stipulated in the indentation of the notes. The new floating interest notes are pledged by a second priority security interest in the same security as the remaining $150 of our second priority senior secured floating interest notes, our 9% second priority Senior Secured Notes and our 9 1/2% Senior Second Secured Notes which are all second priority (subject to permitted liens) to our senior secured credit facilities. After the combinations, the company, certain of U.S. subsidiaries and Hexion U.S. Finance Corporation (formerly known as Borden U.S. Finance) have guaranteed the senior secured debt previously issued by Resolution Performance. In December 2005, we submitted a registration statement with the SEC to complete an exchange offer on fixed-rate and floating interest notes. As of February 2006, a premium of 75 basis points was eliminated on the stock exchange. Debentures In 2000, $328 was the total principal amount of 13 1/2% Senior Subordinate Notes due 2010 issued in private offerings by Resolution Performance and RPP Capital Corporation. Hexion took over the resolution performance obligations according to the 13 1/2% senior subordinate notes in connection with the completion of the combinations. These notes were later exchanged for registered notes. The $328 of 13 1/2% Senior Subordinate Notes are senior subordinate unsecured obligations ranking junior in the right to payment to all existing and future senior debt and all obligations to subsidiaries that do not guarantee the notes. The proceeds from the issuance of $200 of 13 1/2% Senior Subordinate Notes in November 2000 were used to finance partial recapitalization and related transaction costs and expenses. Interest on 13 1/2% Senior Subordinate Notes is paid semi-annually in cash on every May 15 and November 15. The 13 1/2% Senior Subordinate Notes mature on November 15, 2010 and can be redeemed in full at any time or partly from time to time, on and after November 15, 2005, to the specified redemption rates set out under the related indentation. In connection with the resolution special transaction, the decree special performed a senior subordinate note purchase agreement (Seller note financing) with Eastman on 2 May 2015. Such notes were delivered to Eastman as a partial assessment of the resolution special transaction. The interest rate was paid at a base rate equivalent to the seven-year Treasury plus additional basis points from 350 to 550, to be paid semi-annually on 1 January 2015. The seller note financing for payments in form, in which Resolution Specialty was allowed to pay interest in either dollars or notes for the third anniversary. The seller's note financing was 59 table of contents subordinate to the credit agreement, and contained restrictive covenants that could trigger acceleration of repayment in the event of a default absent a waiver. Such restrictive covenants included restrictions on payments and distributions, mergers and acquisitions and transactions with affiliates. We repaid Senior Subordinated Notes of Resolution Specialty on May 31, 2005 in connection with the consummation of the combinations. The 9 1/5% debentures are due in 2021, the 7 7/8% debentures due in 2023 and 8 3/8% decreasing funds due in 2016 was outstanding prior to the Borden transaction. These debentures are senior commitments hexion and rank equally with all Hexion's existing and future senior debts. But because these debentures are unsecured, they are effectively subordinate to Hexion's senior secured debt, including senior secured credit facilities, 8% Senior Secured Notes, 9 1/2% Senior Second Secured Notes, the original floating interest notes, the fixed-rate notes and the new floating interest notes. Other loans In addition, the insurer finances certain insurance premiums. Short-term loans under this scheme include $9 and $6 respectively on December 31, 2005 and 2004, respectively. The $34 Parish of Ascension Industrial Revenue Bonds (IRBs) is related to the purchase, construction and installation of air and water pollution control facilities that are no longer owned by Borden Chemical. The tax exemption status of the IRS is based on the fact that there is no change in the use of the facilities, as defined by the Internal Revenue Code. Borden Chemical continues to monitor the use of the facilities by the current owner. In the event of a change in use, Borden Chemical may be required to take remediation measures, including the redemption of all bonds. On 6 October 2004, we entered into an agreement to buy Bakelite Aktiengesellschaft (Bakelite). We completed the Bakelite Acquisition on April 29, 2005. As discussed in Note 3 to revised consolidated financial statements, we financed the acquisition through a combination of debt and cash. Serie A Preferred Stock In May 2005, Hexion offered Escrow Corp., a subsidiary of Hexion that merged into Hexion randomly with Combinations, 14 million shares of Redeemable Series A Floating Rate Preferred Stock, which we refer to as Preferred Stock, at face of $0.01 per share, and a liquidation preference of $25 per share. The net proceeds from Series A Preferred Stock were used to pay dividends to the

company's parent company. Serie A Preferred Stock accumulates cumulative preferential dividends from the date of issue at an initial rate of LIBOR plus 8.0%, reinforced semi-annually. The dividend increases 75 basis points every six months from 15 November 2005 to 15 May 2007, when the rate is LIBOR plus 11.0%. As of December 31, 2005, the dividend rate was 13.3%. Dividends will be paid by issuing additional shares in Serie A Preferred Stock through May 15, 2010. Dividends will then be required to be paid in cash. After November 15, 2005, the Company has the option to redeem all or part of Series A Preferred Stock to between 101% and 103% of the total liquidation value plus accrued and unpaid dividends. On May 30, 2007, the Company can convert Series A Preferred Stock from a floating interest rate collateral to fixed-rate security, with dividends to be paid at an annual rate equivalent to 14.0%. 14 October 2014, or by a change in control of Series A Preferred Stock shareholders have the option to require the Company to buy back all or part of Serie A Preferred Stock. The Company expects to use a portion of the revenue it receives from its proposed IPO, along with available cash (see Note 1 to revised consolidated financial statements) to redeem Series A Preferred Stock. On November 15, 2006, the first buyers of Series A Preferred Stock are entitled to receive a transfer fee of up to $5. Capital expenditures We plan to spend about $118 on capital expenditures in 2006. This amount was determined through the budget process and can be changed in any way at the board's discretion. Future product demand forecasts, existing plant capacity and external customer trends were taken into account. Of the $118 expected future capital expenditures, based on our historical experience, we expect about $65 will be spent on maintenance and environmental projects. We expect the remaining $53 will be used to expand construction capacity as needed to meet expected demand. We plan to finance capital expenditures through operations and, if necessary, through available lines of credit. We have no material obligations related to these expected capital expenditures as of 31. 60 Table of Contents Contractual Obligations The following table presents our contractual cash obligations as of December 31, 2005. This table does not contain information about most of our recurring purchases of materials for use in production, as our commodity purchase contracts do not meet this definition because they usually do not require fixed or minimum quantities. Contracts with cancellation clauses are not included, unless such cancellation will cause major disruption to our business. For example, we have cancelled information technology support contracts, but this support is essential for the operation of our business and administrative functions; Therefore, amounts to be paid under these contracts are included. Payments are due by year Contractual obligations 2006 2007 2008 2009 2010 2011 andfore total long-term debt, including current maturity $50 $14 $18 $181 $842 $1237 $2,342 Capital lease commitments 1 1 - - 3 3 000 $2342 Capital lease obligations 1 1 - - 3 37 12 Operational leases 26 23 19 14 11 13 106 Unconditional purchase obligations (a) 234 131 107 99 19 110 700 Redeemable preferred share 5 — - 48 1053 1106 Interest on fixed interest debt (b) 146 146 145 145 121 503 1206 Total $ 462 $315 $289 $439 $1044 $ $5472 (a) Unconditional purchase obligations consist of fixed or minimum amounts of goods and/or services under long-term contracts and assume that certain contracts are terminated in accordance with their terms after providing the requisition notice which is usually two to three years for most of these contracts; However, under certain circumstances, some of these minimum liability periods may be further reduced, which will significantly reduce these contractual obligations. This table excludes payments related to income tax, pension and OPEB benefits and environmental obligations due to the fact that at this time we cannot determine either the time or payment amounts for all periods beyond 2005 for certain of these obligations. See Notes 10, 12, 13 and 16 to revised consolidated financial statements and the following discussions on environmental, pension, pension, opeb and income tax liabilities, respectively for more information about these obligations. b) This table excludes interest expense for variable rate debt instruments, including the older secured credit facilities. For the year ended December 31, 2005, this cost was about $45. Our current estimates for future annual cash payments to our defined benefit pension plans range from approximately $17 to $37 per year, with a total funding requirement for the five years ended in 2010 of $131. The assumptions used by our actuators when calculating these estimates included a weighted average annual return on assets for the years 2006 – 2010 and the continuation of applicable legal and planning provisions. We plan to make cash payments of $37 related to our defined benefit pension plans in 2006. These amounts include benefit payments to be made under unfunded defined benefit pension schemes. Our expected annual future retirement benefits for our non-retirement plans are approximately $2, with total benefit payments for the five years ended in 2010 of approximately $10 and $8 for the years ended 2011 and beyond. We estimate that we will pay the current year's cash tax totaling approximately $31 in 2006 for local, state and international obligations. We expect other environmental expenditures for 2006 - 2010 to total about $18. 61 Table of Contents We maintain three stock option plans for our employees: the RPP 2000 Stock Option Plan (which we refer to as the RPP plan), the RSM 2004 Stock Option Plan (which we refer to as the RSM plan) and the BHI Acquisition 2004 Stock Incentive Plan (which we refer to as the 2004 incentive plan). In addition to these options plans, we maintain a share-based deferred compensation plan. The fair market value of the options given under the option plans and deferred common share units given under the share-based deferred compensation plan was determined at the same time on the allocation date based on the fair market value of the underlying share on the day of the award. Options and deferred shares given under the RSM plan and the 2004 incentive plan were granted simultaneously with the acquisition of Resolution Specialty and Borden Chemical by Apollo in August 2004, and the fair market value of these options and deferred common share units are equal to the acquisition price paid by Apollo. Substantially all the options provided under the RPP plan were provided simultaneously with the acquisition of Resolution Performance by Apollo in November 2000 and the fair market value of these options is equal to the acquisition price paid by Apollo. In 2004, a limited number of options were issued to a new employee in accordance with the RPP plan at fair market value as stipulated by the Board of Directors for resolution performance. On May 11, 2005, BHI Acquisition issued options to purchase 84,424 member units for the Company's non-executive directors. These options have a ten-year lifetime of immediate earnings and training on an IPO. Upon completion of an IPO, we will recognize expenses of $1, representing the fair value of the options on the allocation date determined by the Black-Scholes pricing model. As of December 31, 2005, as a converted basis, there were approximately 4,150,000 outstanding options under all of our employees and director selection plans, which include the Resolution Performance 2000 Non-Employee Directors Option Plan and approximately 970,000 deferred joint storage units under the Deferred Compensation Plan. All outstanding stock prices as of December 31, 2005 are denominated in Hexion LLC shares. As a result of changes related to combinations to the RPP plan, the RSM plan, the 2004 incentive plan and the deferred compensation plan, we recognized a $12 compensation fee for the year ended December 31, 2005, which is included in the sale, general and administrative cost. The total compensation cost to be accounted for under such plans was $31 based on an estimated fair value per share of $17.52, the value at the time of the combinations. We expect to recognize the additional compensation cost of $19 over the earnings period for the underlying share-based awards. These prices are expected to westerly over the next seven years. We expect to have sufficient liquidity to finance working capital requirements, contractual obligations and capital expenditures during the remainder of the period of our credit facilities with cash received from operations and amounts available under credit facilities. Off-Balance schemes We had no off-balance schemes as of December 31, 2005. Covenant Compliance Certain covenants in the credit agreement governing our senior secured credit facilities and indentations governing 8% Senior Secured Notes, 9 1/2% Senior Second Secured Notes and Second-Priority Senior Secured Notes (i) require maintenance of defined adjusted EBITDA to fixed costs and senior secured debt to adjusted EBITDA ratio and (ii) limits our ability to take certain actions incur additional debt or make acquisitions if we are unable to meet these conditions. The most restrictive of these covenants, the covenants to incur additional debt and the ability to make future acquisitions, requires an adjusted EBITDA to fixed fees ratio (measured on a subsequent four-quarter basis) of 2.25:1. Failure to comply with these covenants may lead to limiting our long-term growth prospects by hindering our ability to incur future debt or grow through acquisitions. 62 Table of Contents Fixed costs are defined as interest expense excluding amortization or write-down of deferred financing costs. Adjusted EBITDA is defined as EBITDA further adjusted to exclude certain non-cash, non-recurring and realized or anticipated future cost savings directly related to prior acquisitions and combinations. We believe that the inclusion of the additional adjustments used when calculating adjusted EBITDA is appropriate to provide additional information to investors to demonstrate compliance with our financial covenants and assess our ability to incur additional debt in the future. Adjusted EBITDA and fixed fees are not defined terms under GAAP. Adjusted EBITDA should not be considered an alternative to operating profit or profit as a measure of operating profit or an alternative to cash flows as a measure of liquidity. Fixed additions should not be considered as an alternative to interest expenses. Because we are highly leveraged, we believe that the inclusion of supplementary adjustments to EBITDA used in presenting Adjusted EBITDA is appropriate to provide additional information to investors to demonstrate compliance with our financing agreements. Adjusted EBITDA is not adjusted to include $27 for the impact of Hurricanes Katrina and Rita. As of December 31, 2005, we complied with all financial covenants contained in the indentations that govern the banknotes and all our credit facilities. December 2005 Reconciliation of net loss to adjusted EBITDA EBITDA Net loss $ (87) Income tax 48 Interest expense, net 204 Impairment of deferred financing charges 17 Depreciation and amortization costs 148 EBITDA 330 Adjustments to ACQUISITION EBITDA (1) 29 Transaction costs (2) 44 Non-cash costs (3) 30 Unusual items : Purchase accounting effects/inventory increase 16 Discontinued business 9 Business adjustments 9 Other (4) 31 Total unusual items 65 In process Synergies (5) 105 Adjusted EBITDA (6) $603 Fixed costs $209 Ratio of adjusted EBITDA to fixed costs 2.89 (1) Represents the incremental EBITDA effect for the Bakelite transaction, Rhodia Acquisition and Rohm and Haas Acquisition as if they had taken place at the beginning of the period. (2) Represents merger costs mainly related to Hexion Formation and Bakelite Acquisition and expenses related to completed acquisition activities. (3) Includes non-cash costs for write-downs of tangible fixed assets, compensation, and unrealized currency losses on debt instruments denominated in currencies other than the functional currency of the holder. (4) Includes certain non-recurring litigation, a loss in foreign currency on an exchange rate hedge related to the Bakelite acquisition, integration costs and incremental non-recurring advisor and external audit fees related to the Bakelite acquisition and combinations. (5) Represents estimated net unrealized cost synergies as a result of the hexion formation and the Bakelite acquisition. (6) The Company is required to have an adjusted EBITDA ratio of fixed fees greater to 2.25 to 1.0 in order to incur additional debt under certain of our indentations. As of December 31, 2005, the Company was able to satisfy this covenant and incur additional debts during our indentations. In addition, the company expects to be able to meet its fixed charges ratio pact at the conclusion of the Akzo acquisition, which the company expects to take place in the second quarter of 2006. Having given effect to the Akzo acquisition, as if it had taken place in early 2005, Adjusted EBITDA would be $624 (which did not add back the $27 negative cost effect of Hurricanes Katrina and Rita), fixed costs would be $214 and the ratio of adjusted EBITDA to fixed costs would be 2.92. 63 Table of Contents Quantitative and qualitative disclosures about market risk management. We use various financial instruments, including some derivatives, to help us hedge our foreign exchange risk. We also use commodity purchase contracts and price contracts with customers to reduce commodity price risk. These contracts typically do not include minimum purchase requirements. Currency risk. Our international business accounted for about 50% of our sales in 2005 and 49% in 2004. As a result, we have exposure to currency risk on transactions that are potentially denominated in many foreign currencies. These transactions include currency denominated import and export of raw materials and finished goods (both intercompany and third-party) and loan repayments. In all cases, the functional currency is the business unit's local currency. It is our policy to reduce exposure to foreign currency cash flows due to exchange rate fluctuations by ensuring firmly committed transactions in foreign currency where it is economically possible. Our use of forward and option contracts is designed to protect our cash flows from adverse movements in exchange rates, to the extent that the amount under contract. We do not attempt to hedge currency exposure in a way that will completely eliminate the effect of changes in exchange rates on net income and cash flow. We do not speculate in foreign currency, nor do we secure foreign currency translation of our international operations into US dollars for the purpose of consolidating our financial performance or other currency net assets or liabilities. The counterparties of our futures contracts are financial institutions with investment grade credit ratings. Effective October 11, 2005, we entered into a cross-currency agreement and interest rate swap of USD 289 structured for a non-US. subsidiary's $290 U.S. dollar denominated the concept of loans. Swap is a three-year agreement designed to offset balance sheet and interest rate exposures and cash flow variation related to exchange rate fluctuations on the concept of loans. The euro to us dollar exchange rate under the swap agreement is 1.2038. We pay a variable rate equal to Euro LIBOR plus 271 basis points. We receive a variable rate equal to US dollar LIBOR plus 250 basis points. The amount we receive under this Agreement is equal to our non-American. subsidiary interest on its $290 term loan. Our currency risk is also reduced because we operate in many foreign countries, which reduces the concentration of risk in any currency. In addition, our foreign business has limited imports and exports, reducing the potential impact of exchange rate fluctuations. With other factors similar, such as the performance of individual foreign economies, the average 10% currency increase or decline in one country will not significantly affect our operating results or cash flow. However, an average 10% currency increase or decrease in all countries can significantly affect our operating results. As required by applicable accounting standards, our revised consolidated operating statements include any gains and losses arising from forward and option contracts. 64 Table of Contents The following table summarizes our derivative financial instruments as of March 31, 2015. Real values are determined by quoted market prices on these dates. 2005 2004 Average days to maturity Average contract rate NominalAmount Fair value Gain (loss) Average day to maturity Average contract rate NotionalAmount Fair value gain (loss) Currency to sell for euro US dollar (1) 27 1.1890 45 — Dollar (1) 990 1.2038 289 5 — British Pound (1) 90 0.6987 41 (1) — US Dollars (1) 60 1.2122 3 — US . Dollar (2) 122 1.2031 24 — US Dollar (2) — - 183 1.3200 36 — Canadian Dollar (4) — - - 183 1.2300 36 (2) Currency to sell for CDN Dollar British Pound (1) — - 31 2.3255 42 1 Commodity future contracts Natural gas futures - - 3 1 - - 3 - (2) Deal conditional futures contracts (for pending or completed acquisitions) (3) Set options purchased interest risk. We have used interest rate swaps to minimise our interest rate exposures between fixed and floating interest rates on long-term debt. We do not enter into speculative financial contracts of any kind. The fair value of swaps is determined by means of estimated market values. Under interest rate swaps with other parties to exchange at specified intervals the difference between fixed rate and floating interest amounts calculated upon reference to agreed notional principal amount. Some of our debts, including debt under our floating interest notes and loans under our senior secured credit facilities, are at variable interest rates and expose us to interest rate risk. If interest rates increase, our debt obligations on the variable interest rate debt will increase even if the loan amount remained the same. Assuming that the amount of variable debt remains the same, an increase of 1% in interest paid on our variable rate debt will increase our accounting 2006 estimated debt requirements by approximately $8 million. See Risk Factors – Risk Related to Our Business – Our variable rate debt exposes us to interest rate risk, which can cause our annual debt service obligations to increase significantly. 65 Table of Contents The following is a summary of our outstanding debt as of 31.12.2005 and 2004 (see Note 8 to revised consolidated financial statements for further information on our debt). The fair value of our listed debt is based on the price at which the bonds are traded or quoted as at 31 March 2015. All other debt values are determined from listed market interest rates as at 31.12.2005 and 2004. 2005 2004 Year Debt WeightedAverage Interest Fair Value Debt WeightedAverage Interest Fair Value 2005 $17 9.1% $17 2006 $51 9.1 % $51 49.1 1 % 4 2007 15 9.2 % 15 4 9.1 % 4 2008 18 9.2 % 18 5 9.1 % 5 2009 181 181 2819.2 % 189 175 9.1 % 187 2010 845 9.3 % 870 801 9.9 % 851 2011 and 1,244 8.0% 1,176,844 8.5% 832 $2,354 $2,319 $1,850 $1,900 We don't use derivative financial instruments in our investment portfolios. We place any cash equivalent investments in instruments that meet the credit quality standards set out in our investment policies, which also limit exposure to one problem. As of December 31, 2005 and 2004, we had $29 and, $72, respectively invested at average prices of 7% and 2%, respectively, mainly in a prime money market account and marketable securities with maturity periods of 30 days or less. Due to the short maturity of our cash equivalents, the book value of these investments approximates fair value, and our interest rate risk is not significant. A 10% increase or decrease in interest return on invested cash would have no material effect on our net income and cash flows as of December 31, 2005 and 2004. Commodity risk. We are exposed to price risks associated with commodity purchases, most significantly with phenol, methanol, urea, acetone, propyylene and chlorine. For our raw materials, we have purchase contracts, with periodic price adjustment provisions. Obligations with certain suppliers, including our phenol and urea suppliers, provide up to 100% of our requirements, but also provide flexibility to buy a certain percentage of our needs in the spot market, when favorable to us. We rely on long-term agreements with key suppliers for most of our raw materials. Loss of an important source of supply or a delay in shipments can have a negative effect on the business. Should any of our suppliers not deliver or should any of the most important long-term supply contracts be cancelled, we would be forced to buy raw materials in the open market, and no assurances could be given that we would be able to make these purchases or turn them into prices that would allow us to remain competitive. A supplier offers over 10% of certain raw material purchases, and we could incur significant time and expense if we had to replace the supplier. In addition, several of the raw materials are transported at different plants through a pipeline from one supplier. If we couldn't receive these raw materials through these pipeline schemes, we might not be able to get them from other suppliers at competitive prices or on time. See Risk factors – Risk related to our business – We rely on raw materials in the production of our products, and cost fluctuations will increase our operating costs. Natural gas is essential in our production processes, and costs can vary widely and unpredictably. To control our natural gas costs, we secure a portion of our natural gas purchases for North America by entering into natural gas futures contracts. The contracts are settled for cash each month based on the closing price on the last day the contract trades on the New York Mercantile Exchange. We recognize gains and losses on commodity futures contracts each month as gas is used. Our future commitments are marked on the market quarterly. Our board approves all raw material futures contracts that we enter into based on government delegations. Our commodity risk is also moderated through our chosen use of customer contracts with sales price provisions indexed to publicly available indices for these commodities. 66 Table of Contents Other matters. Our activities are subject to the common dangers associated with chemical production and associated storage and transportation of raw materials, products and waste, including, but not limited to, combustion, bad weather and natural disasters, mechanical failure, unplanned downtime, transport interruptions, chemical emissions, emissions or emissions of toxic or hazardous substances or gases and other environmental risks. These potential hazards may cause personal injury or loss of life, serious damage to or destruction of property and equipment and environmental damage and may result in the suspension of our activities and the imposition of civil or criminal sanctions. We have significant operational management systems, preventive procedures and protective safety measures to minimize the risk an incident and to ensure the safe continuous operation of our facilities. In addition, we maintain property, outages and non-life insurance that we believe are consistent with common industry practices, but we are not fully insured against all potential hazards that are incidental to our business. Due to the nature of our business and today's litigious climate, product liability lawsuits, including class actions claiming responsibility for death, damage or property damage caused by our products, or by other manufacturers' products that include our components, are inherent to our business but historically have been immaterial. However, our current product liability claims, and any future lawsuits, may result in damages against us, which in turn may encourage further litigation. Critical accounting policies and estimates When preparing the financial statements in accordance with US GAAP, we must make estimates and assumptions about future events affecting the amounts of reported assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities in the financial statements and associated notes. Some of these accounting policies require the application of significant judgment when choosing appropriate assumptions to determine these estimates. By their very nature, these judgments are subject to an inherent degree of uncertainty; Therefore, we cannot assure you that actual results will not differ materially from estimated results. We base these judgments on our historical experience, advice from experienced consultants, forecasts and other available information, as needed. Our essential accounting policies are more fully described in Note 2 to the revised consolidated financial statements. Our most critical accounting policies, which reflect significant management estimates and judgments when determining reported amounts in audited consolidated accounts, are as follows: Environmental protection and restoration obligations. Provisions for environmental issues are registered when we believe it is likely that a liability has been incurred, and we can reasonably estimate the amount of liability. Our provisions are established in line with the guidelines in Statement 96-1, Environmental Remediation Debt. We have accrued $39 and $41 as of December 31, 2005 and 2004 respectively for all probable environmental remediation and restoration obligations, which is our best estimate of these commitments. Based on available information and analysis, we believe that it is reasonably possible that the costs associated with such obligations may fall within a range of $27 to $79. This estimate of the extent of reasonable possible costs is less certain than the estimates on which the reserves are based, and to establish the upper limit of this area, we used assumptions that are less favorable to Hexion the selection of reasonable possible outcomes, but we do not assume that we would bear full responsibility for all websites, to the exclusion of other potentially responsible parties. We have entered into environmental damage resolution agreements with each of the sellers in Bakelite Transaction, Resolution Performance Transaction and Resolution Specialty Transaction. Under the Bakelite Environmental Damage Resolution Agreement, the sellers have agreed to indemnity us for certain existing environmental obligations, including those related to our plant in Duisburg, Germany. For environmental conditions that existed prior to the solution performance transaction, environmental remediation responsibilities are affected by agreements related to the transactions in which Shell will generally hold us harmless from environmental damage related to environmental conditions that occurred or existed before the date of acquisition, subject to certain limitations. In addition, for events occurring after the closing date of the acquisition, management believes that we maintain adequate insurance coverage, subject to deductibles, for environmental remediation activities. Under the terms of the resolution speciality transaction, Eastman retained the responsibility and indemnity of the existing unknown environmental conditions at facilities transferred to us, as well as the existing known environmental conditions at the Roebuck, South Carolina facility, subject to certain restrictions. Tax advantage and debt. As of December 31, 2005 and 2004, we had valuation allowances of $239 and $192, respectively, against all of our net federal and state and some of our net foreign deferred income tax assets. The valuation deduction was calculated in accordance with US GAAP which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. In accordance with SFAS 109, evidence, such as operating results during the last three-year period, is given more weight than our expectations of future profitability, which are inherently uncertain. Our losses in the United States and certain foreign operations in recent periods represented sufficiently negative evidence to claim a full valuation allowance against our net federal, state and some of our foreign deferred income tax assets. We intend to maintain a valuation deduction against net deferred tax assets until there is sufficient positive evidence to support the realization of such assets. The calculation of our income tax obligations involves dealing with uncertainty in the application of complex domestic and foreign income tax regulations. We recognize commitments for expected tax audit issues based on our estimate of whether, and the extent to which additional income tax will be due. If we ultimately determine that payment of these amounts is not necessary, we reverse the liability and tax benefit during the period in which we determine that liability is no longer necessary. We also recognise tax benefits to the extent that our positions are likely to be maintained when challenged by the respective tax authorities. To the extent that we advise on matters for which obligations are established, or are required to pay amounts beyond our obligations, our effective income tax rate for a given period may be materially affected. An unfavorable income tax settlement would require the use of the company's cash and result in an increase in the effective income tax rate in the year of the decision. A favourable income tax settlement will be recognised as a reduction in the effective income tax rate in the year of the decision. Pension assets and liabilities. The amounts recognised in our financial statements related to pension liabilities are determined by actuarial valuations. Inherent in these valuations are certain assumptions, of which the more significant include: • The weighted average interest rate to be used to discount the liability 5.0% for 2005 and 5.4% for 2004; • The weighted average expected long-term return on pension assets 8.2% for 2005 and 2004; • The weighted average rate of future pay increases 3.6% for 2005 and 4.1% for 2004; and • The expected mortality table (used RP 2000 table). The actual return on our pension assets in 2005 was approximately 10%. Future returns on plane assets are subject to the strength of financial markets, which we cannot predict with any accuracy. These assumptions are regularly reviewed and revised when appropriate, and changes in one or more of them may affect the amount of our registered net expenses and/or liabilities related to these pension liabilities. Other assumptions involving demographic factors such as mortality, retirement age and turnover are also evaluated periodically and updated to reflect our experience and expectations for the future. Actual results that differ from our assumptions accumulate and amortize over future periods; Therefore, these deviations affect our expenses and liabilities recorded in future periods. Future pension costs and necessary contributions will also depend on future investment results, changes in future discount rates and various other factors related to participants' demographic characteristics in our retirement plans. Long-term assets and depreciation and amortization. In the case of long-term assets, key assumptions include the estimate for the use of life and the recoverability of capitalized assets and other intangible assets. The recovery of assets to be held and used is measured by a comparison of the carrying amount of an asset to future uns spoken net cash flows expected to be generated by the asset, which is subject to significant judgment. If the life span of the assets was found to be shorter than originally estimated, costs would be accelerated. Impairment of long-term assets. As events warrant, the Company evaluates the recoverability of long-term assets by assessing whether the carrying amount can be recovered over their remaining lifetime through the expected future unspoken operating cash flows of the underlying business. Any write-down losses are determined by comparing the carrying amount of the assets with operating cash flows on a discounted basis. Recently issued accounting standards In November 2004, the Financial Accounting Standards Board (FASB) issued statement on financial accounting standards (SFAS) no. The statement amends Accounting Research Bulletin (ARB) No. No. 43 has previously stated that these costs must be as abnormal as requiring treatment as the current period costs. SFAS No. 151 requires that these elements be recognized as current period costs regardless of whether they meet the criterion of such abnormality. In addition, this statement requires that the allocation of fixed production indirectly to the cost of conversion be based on the normal capacity of the production facilities. The statement applies to inventory costs incurred in the fiscal years beginning after 15 June 2015. The Company believes that implementation of SFAS No. 151 should not have any material impact on its consolidated financial position, results of operations or cash flows. In March 2005, FASB issued interpretation No. This interpretation clarifies that the term conditional pension obligation used in FASB No. 143, Accounting for pension liabilities, refers to a legal obligation to perform a pension obligation where the time and (or) method of settlement is contingent on a future event that may or may not be within the unit's control. If an entity is required to recognize a liability for the fair value of a contingent pension obligation, if the fair value of the obligation can reasonably be calculated. The interpretation will take effect for the company at the latest at the end of the financial year ending March 31, 2015. The implementation of this interpretation had no material effect on the company's consolidated financial position, results of operations or cash flows. 67 Table of Contents In September 2005, FASB issued EITF Issue No. The issue provided guidance on the circumstances in which two or more inventory transactions with the same counterparty should be displayed as a single non-monthly transaction within the framework of APB Opinion No. 29, Accounting for non-monthly transactions. Problem guidance on circumstances in which non-preetarian exchanges of inventory within the same industry shall be recognised at fair value. EITF 04-13 will take effect for transactions completed during reporting periods as of 15 September 2015. The company assesses the impact this issue will have on our consolidated financial statements. In November 2005, FASB issued FSP FAS 123(R)-3, Transitional elections related to accounting for the tax effects of share-based payment prices (FSP 123(R)-3). FSP 123(R)-3 provides an optional alternative method that establishes a calculation component to arrive at the starting balance of the accumulated capital pool associated with employee compensation and a simplified method for determining the subsequent impact on the accumulated capital pool of employee prices that are fully earned and outstanding at the adoption of SFAS No. 123(R). We are currently evaluating this transition method. 68 Table of Contents ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK See section Quantitative and qualitative disclosures on market risk included in section 7 - Management's discussion and analysis of financial condition and results of operations. 69 Table of Contents ITEM 8. ANNUAL ACCOUNTS AND SUPPLEMENTARY DATA Index to the Consolidated Financial Statements PageNumber Consolidated Accounts for Hexion Specialty Chemicals, Inc. Consolidated financial statements for operations:For the years ended 31 December 2005, 2004 and 2003 71 Consolidated balance sheets:As of December 31, 2005 and 2004 72 Consolidated cash flows:For the years ended December 31, 2005 and 2004 72 Consolidated cash flows:For the years ended December 31, 2005 and 2004 72 Consolidated cash flows:For the years ended December 31, 2005 and 2004 72 Consolidated cash flows:For the years ended December 31, 2005 and 2004, 72 consolidated cash flows were :For the years ended December 31, 2005, 2004 and 2003 75 Notes to the consolidated financial statements:For the years ended December 31, 2005, 2004 and 2003 76 Reports from independent registered public accounting firms 131 Annual accounts Schedule: Schedule II - Valuation and qualifying accounts 133 70 Table of Contents HEXION CHEMICALS, INC. CONSOLIDATED OPERATING FINANCIAL STATEMENTS Year ended December 31 , 2005 2004 2003 (In million, excluding stock and per share data) Net sales $4470 $ 2019 $782 Sales costs 3808 1785 714 Gross profit 662 234 68 Sales, general and administrative expenses 400 163 81 Transaction-related expenses (see note 1) 44 56 — Other operating expenses 10 6 10 Operating income (loss) 208 9 (23) Interest expense, net 204 117 77 Impairment of deferred financing fees (see note 8) 17 — Other non-operating expenses , net 16 5 — Losses from continuing operations before tax, income from non-consolidated units and minority interest rates (29) (113) (100) Tax expense (benefit) (see note 16) 48 — (37) Loss from continuing operations before earnings from non-consolidated units and minority interest (77) (113) (63) Earnings from non-consolidated units, net 2 — — Minority interest in net (income) loss of consolidated subsidiaries (3) 8 13 Losses from continuing operations (78) (105) (50) Loss from discontinued operations (See note 4) 9 — — Net loss (87) (105) (50) Redeemable preferred share accretion (See note 11) 30 — - Net loss available to common shareholders $ (1117) $ (105) $ (50) Comprehensive loss $ (172) $ (36) $ (9) Basic and diluted per share Data Loss from continuing business $ (1.30) $ (1.27) $ (0.61) Loss from discontinued operations (0.11) — Net loss available to common shareholders $ (1.41) $ 1.27) $ (0.61) Dividend (See note 14) $6.66 $ - $ - Average number of outstanding shares in the period- basic and diluted 82,629,906 82,629,906 82,629,906 See notes to the consolidated accounts 71 Table of Contents HEXION SPECIALTY CHEMICALS, INC. CONSOLIDATED BALANCE SHEETS December 31,2005 31.2004 (IN MILLIONS) ASSETS Current assets Cash and equivalents $183 $152 Trade receivables (less deduction for questionable accounts of $ 19 in 2005 and $ 15 in 2004) 605 518 Inventories : Finished and processed goods 292 290 Raw materials and supplies 1 53 115 Other current assets 132 64 1 365 1 139 Other assets 103 95 Property, plant and equipment 1 Machinery and equipment 1 777 1 706 2 049 1 951 Less accumulated depreciation (653) (628) 1 396 1 323 Goodwill (see note 6) 169 51 Other intangible assets, net (See note 6) 176 88 Total assets $3209 $2696 See notes to the consolidated financial statements 72 Table of Contents HEXION SPECIALTY CHEMICALS December 2005 2004 (In millions, excluding stock and equity data) LIABILITIES, REDEEMABLE PREFERRED SHARE, COMMON SHARE AND OTHER SHAREHOLDER DEFICIT Short-term liabilities Accounts and drafts are paid $503 $488 Debt to be paid within one year 51 16 Payable interest 45 36 Payable tax 91 33 Other current liabilities 248 133 938 706 Other liabilities Long-term liabilities 2.33 Other current liabilities 248 133 938 706 Other liabilities Long-term liabilities 2.33 303 1 834 Long-term pension liabilities 167 73 Liabilities for non-pension benefits 119 142 Deferred tax 139 131 Other long-term liabilities 92 65 2820 2245 Minority interest in consolidated subsidiaries 11 54 Liabilities and assumptions (see notes 8 and 10) Redeemable preferred share - $ 0.01 parse; liquidation preference $25 per share; 60,000,000 shares authorized, 14,781,959 issued and outstanding as of December 31, 2005 (See note 11) 364 — Common Stock and Other Shareholder's Deficit Common stock - $0.01 face value; 300,000,000 shares authorized, 170,678,965 issued, 88,049,059 own and 82,629,906 outstanding as of March 31, 2015. 2005 and 2004 1 1 Paid-in capital 515 1 523 Treasury shares (296) (296) Receivables from mother — (561) Accumulated other comprehensive (loss) income (7 0) 720 Accumulated deficit (1,074) (996) (924) (309) Total liabilities, redeemable preferred share, common share and other shareholder deficits $3,209 $2696 See notes Consolidated Financial Statements 73 Table of Contents HEXION SPECIALTY CHEMICALS, INC. CONSOLIDATED CASH FLOWS The year endedDecember 31, 2005 2004 2003 (In millions) Cash Flows from (used in) Operating activities Net loss $ (87) $ (105) $ (50) Adjustments to reconcile net loss to net cash flow from (used in) operating activities: Depreciation and amortizations 148 86 8658 Minority interest rates in net income (loss) of consolidated subsidiaries 3 (8) (13) Share-based compensation (see note 15) 12 4 — Deferred tax assets (3) (3) (37) Unrealized foreign exchange loss 13 — — Amortization of deferred financing fees 9 5 10 Write-down of deferred financing fees (see note 8) 11 — — Non-cash restructuring 9 — — Write-downs 8 2 13 Other non-cash adjustments (3) — (5) Net change in assets and liabilities: Trade receivables 7 (81) 9 Inventories 59 (53) 10 Accounting and drafts to be paid (29) 133 (29) 133 (29) 133 (29) 133 (29) 46) Tax payable 58 — 10 Other assets (50) (20) 4 Other liabilities 6 8 (6) 171 (32) (43) Cash flows (used in) from investment Activities Investments (105) (57) (18) Acquisition of businesses , after acquired cash (252) (152) — Income from sale of operations, net cash 3 — — Cash combination of Borden Chemical — 185 — Proceeds from sale of assets — 4 23 Distributions from equity partners — — 2 (354) (20) 7 Cash flows from (used in) Financing activities Net short-term debt repayments (2) (6) — Borrowings of long-term debt 1 193 293 748 Repayment of long-term debt (750) (195) (645) Dividend payment (523) — — Income from issuance of preferred stock , net issuance costs (see note 11) 334 — — Long-term debt and credit facility financing fees paid (22) — IPO-related expenses (see note 1) (11) — — Income related to solution special transaction — 60 — Other — (4) (23) 219 148 80 Effect of exchange rates of cash and equivalents (5) 7 1 Increase in cash and equivalents 31 103 45 Cash and equivalents at the beginning of the year 152 49 4 Cash and equivalents at end of year $183 $152 $152 $49 Supplementary Disclosures of Cash Flow Information Cash paid (received) : Interest, net $192 $102 $63 Income tax, net 8 3 (19) Non-cash activity: Settlement of note receivables from parent 581 — - Unpaid dividends declared 27 — - Redeemable preferred stock recovery (see note 11) 30 — — Reclassification of minimum pension liability adjustment (to) from shareholder deficit (16) 2 — Issuance of note in resolutions Specialty transaction — 50 — See notes to the consolidated financial statements 74 Table of Contents HEXION SPECIALTY CHEMICALS , INC. CONSOLIDATED STATEMENT OF COMMON SHARES AND OTHER SHAREHOLDERS' (DEFICIT) EQUITY CommonStock Paid-inCapital TreasuryStock Receivables fromForeldre Accumulated Second Compensated (Loss) Income Accumulated (Deficit) Equity Total (in Million) Balance Sheet, December 31, 2002 $1$143$ - $41 $(22) $ Net loss - - — -- (50) (50) Translation adjustments — - 40 - 40 40 40 rate swap, net tax — — — - 1 - 1 Comprehensive loss — (9) Constructive distribution — (2) (2) Balance sheet, December 31, 2003 $ 1 $143 — — — $ 82 $ (74) $ 152 Net loss - - (105) (105) Translation adjustments — — 67 — 67 Minimum pension liabilities adjustment, net tax — — 2 — 2 Comprehensive losses — (36) Acquisition of resolution special to consolidated group — 57 — 57 Borden Chemical to Consolidated Group — 1,252 (296) (542) (131) (817) (534) Interest on notes from mother to Borden Chemical — 19 — (19) — compensation costs under deferred compensation plan — 4 — 4 Deferred tax adjustments combination — 48 — 48 Balance, 31. 2004 $ 1 $ 1523 $ (296) $ (561) $ 20 $ (996) $ (309) Net loss — — — - (87) (87) Translation adjustments —(69) — (69) Minimum pension commitment adjustment, net tax of $8 — (16) — (16)) Comprehensive loss (172) Effect of combinations (see note 14) — (581) — 581 — — - - Purchase accounts related to purchase of minority interest (See note 3) — 121 — — (5) 11 127 Declared dividend (see note 11) — (550) — (550) Stock-based compensation expenses (See note 15) — 12 — — 12 Redeemable bearing accretion (see note 11) — (30) — (30) Interest accrued on notes from the parent table Chemical (see note 14) — 20 — (20) — Other — (2) (2) Balance Sheet, December 31, 2005 $1$515 $ (296) $ - $ (70) $ (1074) $ (924) (a) Accumulated other comprehensive loss of 3 December 1, 2005 represents $27 of net foreign currency translation gains, a $5 net loss from purchase accounting adjustments related to the acquisition of minority interests and a $92 net loss related to the Company's minimum pension liabilities adjustment. As of December 31, 2004, $96 of net currency translation gains and a net loss of $76 relates to the Company's minimum pension liabilities adjustment. Accumulated second comprehensive profit as of December 31, 2003 represents $82 of net currency translation gains. See Notes to the consolidated financial statements 75 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements (In millions, excluding share and per share data) 1. Background and basis for presentation Hexion Specialty Chemicals, Inc. (Hexion or Company) is engaged in the production and marketing of resins, inks, coatings and adhesive resins, formaldehyde, oilfield products and other specialty and industrial chemicals worldwide. As of December 31, 2005, the company has 86 production and production facilities, of which 37 are located in the U.S. Hexion was formed on 31 December 2005. Specialty Inc.) and Borden Chemical, Inc. (Borden Chemical). On November 1, 2000, Resolution Formed Specialty Inc. and purchased the Specialty Resins and Monomers and Ink business of Eastman Chemical Company (Eastman) on 2 May 1945. Upon completion of the combinations, Borden Chemical changed its name to Hexion Specialty Chemicals, Inc., and BHI Acquisition LLC (BHI Acquisition), Borden Chemical's parent, changed its name to Hexion LLC. April 2005 completed a subsidiary of Borden Chemical the acquisition of Bakelite Aktiengesellschaft (Bakelite) (See note 3). The Company has incurred costs totaling approximately $44 in connection with combinations and terminated acquisition activities during the year ended December 31, 2005, mainly for accounting, consulting, legal and contract termination fees. Since this transaction is considered a merger of entities under joint control, in accordance with the Financial Accounting Standard Board (FASB) statement of financial accounting standards (SFAS) no. 2004, as a result of the acquisitions of Resolution Specialty and Borden Chemical by Apollo, the Company incurred transaction-related costs of $56. This amount included fees for accounting and legal fees, fees paid to Apollo, payments for the cancellation of limited stock and administration bonuses related to the activity. On April 30, 2005, the Company filed a registration statement, which is not yet effective, with the U.S. Securities and Exchange Commission (SEC) for a proposed IPO of its common stock. The company then submitted six changes to the registration statement on 2 May 2015. The Company has incurred costs of approximately $11 in connection with the

proposed IPO during the year ended December 31, 2005, mainly for accounting and legal costs and printing costs. Since the cost of issuing common shares is considered a reduction in the related income of the offer, these costs are deferred in other assets on 31 December 2005 Consolidated balance sheet until the IPO is in force. Basis for presentation – Before combinations became Resolution Performance, Resolution Specialty Inc. and Borden Chemical are considered entities under the joint control of Apollo affiliates as defined in the Emerging Issues Task Force (EITF) issue no. 02-5, Definition of joint control in relation to the FASB Statement on Financial Accounting Standards No. 02-5, Definition of Joint Control in Relation to the FASB Statement on Financial Accounting Standards No. 02-5, Definition of Joint Control in Relation to fasb Declaration on Financial Accounting Standards No. 02-5, Definition of Joint Control in Relation to FASB Statement on Financial Accounting Standards No. 02-5, Definition of Common Control in Relation to FASB Statement on Financial Accounting Standards No. 02-5, Definition of Joint Control in Relation to FASB Statement on As a result of the combinations statements from these entities are presented retroactively on a consolidated basis, in a manner similar to a pooling of interests, and include the results of the operation of each business only from the date of the acquisition of Apollo affiliates. The accompanying consolidated financial statements for Hexion include the following entities: the previous resolution performance and its majority-owned subsidiaries as of 31 2005 and 2004 and for the years ended 76 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements (In Millions, Excluding Stock and Per Share Data) 31st, the former Resolution Specialty Inc. and its majority-owned subsidiaries as of December 31, 2005 and 2004, for the year ended December 31, 2005, and from the date of acquisition of 2004; and the former Borden Chemical and its majority-owned subsidiaries (which includes Bakelite since the date of acquisition) as of March 31, 2015 Resolution Performance, Resolution Specialty, Inc. and Bakelite reflects the accounting method. Borden Chemical chose not to use push-down accounting because it was a public reporting registrant as a result of public debt outstanding before and after the acquisition of Apollo. 2. Summary of significant accounting principles Significant accounting principles followed by the company, as summarised below, are in accordance with generally accepted accounting principles. Principles for Consolidation – The consolidated financial statements include the financial statements for resolution results, Resolution Specialty Inc., Borden Chemical and Bakelite and their majority-owned subsidiaries, where no significant participant rights are held by minority shareholders, after the elimination of intercompany accounts and transactions. The company's share of net earnings of 20% to 50% owned companies, which the company has the opportunity to exert significant influence over operating and fiscal policy, is included in income on an equity basis. Investments in other companies are carried at cost. The company has a 50% stake in two joint venture companies producing formaldehyde, resins and UV-curing coatings and adhesives in China. The joint ventures are ready for the use of the equity method to take into account investments. However, since the company does not have the opportunity to exert significant influence over operating and fiscal policy, the company's share of net earnings is presented as Earnings from non-consolidated units on the consolidated financial statements. The company has registered a minority interest in equity interests in subsidiaries that are not 100% owned by the company. On December 31, 2004, minority interest reflected primarily the share interest in Resolution Performance and Resolution Specialty held by management and other On May 31, 2005, dissolution performance and dissolution specialty minority interests were purchased in connection with combinations and registered as a step acquisition (See note 3). As of December 31, 2005, the minority interest primarily reflects the company's stake in HA-International, LLC (HAI), a joint venture between the Company and Delta-HA, Inc. Use of estimates – The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the day of the accounting. , as well as the reported amounts for revenues and expenses during the reporting period. The most important estimates reflected in the financial statements are environmental remediation, legal debt, deferred tax assets and liabilities and related valuation deductions, income provisions, pension and post-retirement assets and liabilities, valuation deductions for trade receivables and inventories, general insurance liabilities, impairments and fair values of acquired assets and liabilities assumed in business acquisitions. Actual results may differ from estimated amounts. Cash and equivalents – The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of December 31, 2005 and 2004, the Company had interest-bearing time deposits and other cash equivalents of $29 and $72, respectively, included in consolidated balance sheets such as cash and equivalents. 77 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continued) (In millions, excluding stock and per share data) Inventories – Inventories are stated at lower costs or market. The cost is determined by using the first-in, first-out method. Property and equipment – Land, buildings and machinery and equipment are valued at cost. Depreciation is recorded on a straight-line basis by cost of price expenses based on the estimated lifetime of properties (the average estimated life span of buildings is 20 years; the average life span of machinery and equipment is 15 years). Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are costed as it accrues. Depreciation costs were $136, $81, and $54, respectively for the years ended September 31, 2015. Deferred costs – Deferred financing costs are classified as Other assets on consolidated balance sheets and amortized over the lifetime of the related debt or credit facility using linear method, since no installment payments are required. When retiring some of the related liabilities, a proportional share of debt issuance costs are expensed. As of December 31, 2005 and 2004, the company's U.S. deferred financing costs were $54 and $54, respectively. See note 8. Goodwill and deductible over net durable and identifiable intangible assets to acquired business balance sheets is carried out as goodwill on the consolidated balance sheets. The company does not amortize goodwill or indefinite intangible assets. Separately identifiable intangible assets used in the company's operations (e.g. formulas and technology, customer lists and contracts, etc.) are registered at cost price and carried as Other intangible assets on the consolidated balance sheets. Intangible assets with determinable lives are amortized on a straight line over the shorter of the legal or useful life span of the asset, which ranges from 4 to 30 years. See note 6. Impairment – As events guarantee, the Company evaluates the recoverability of long-term assets by assessing whether the carrying amount of assets can be recovered over their remaining lifetime through the expected future unst spoken cash flows in the underlying business. Any write-down losses are determined by comparing the carrying amount of the assets with operating cash flows on a discounted basis. The company performs an annual impairment test for goodwill and indefinite living intangible assets. See note 6. General insurance – The insurer is generally self-insured for losses and liabilities related to employee compensation, health and welfare claims, physical property damage, business interruptions and extensive general, product and vehicle liability, but maintains insurance policies for certain items that exceed deductible limits. There is a loss for estimated total liability for claims when using certain actuarial assumptions followed in the insurance industry and the company's experience. The Company maintains a responsibility for certain self-insured claims incurred, but not yet registered, based on actuarial estimates. The company's reserves for self-insurance amounted to $6 and $4 as of December 31, 2005 and 2004, respectively. Legal costs – The company will incur legal costs in the period in which a claim has been made or an event becomes known, if the amounts are probable and reasonable. Each claim is awarded to a number of potential responsibilities, with the most likely amount incurred. Accrued amounts include all costs related to a claim, including settlement, assessments, judgments, fines and legal costs. Revenue recognition – Revenue for product sales, by estimated quotas and returns, is recognised as risk and title of the product transfer to the customer, which either occurs at the time the shipment is made or upon delivery. In situations where the product is delivered via pipeline, risk and title transfers when the product moves 78 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated accounts – (Still) (In millions, excluding stock and per share data) across an agreed transfer point, which is usually the clients' property line. Product sales delivered by pipeline are measured based on daily flow meter readings. It standard terms of delivery are included in their contracts for sales and invoices. Shipping and handling – The company records shipping invoiced to customers in net sales. Shipping costs are incurred to move the company's products from production and storage facilities to the customer. Handling costs are incurred from the point where the product is removed from the warehouse until it is delivered to the shipper and typically includes costs for storing, moving, and preparing the products for shipment. Shipping and handling costs are recorded in sales costs in the consolidated accounts. Research and development costs – Funds are committed to research and development for technical improvement of products and processes that are expected to contribute to operating profit in the years to come. All costs related to research and development are charged expenses incurred. Research and development and technical service expenses were $62, $30 and $16 for the years ended December 31, 2005, 2004 and 2003, respectively. Currency transfer expenses – Assets and liabilities of foreign affiliates are traded at the exchange rates applicable on the balance sheet date, and income and costs are traded at average exchange rates that prevail during the year. The effect of the translation is accounted for as an adjustment of the equity and other shareholder's equity (deficit) and included in other income statements.). Income tax - The company provides income tax in accordance with SFAS No. 109, Accounting for income tax. SFAS 109 requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences between the accounting amount and the tax base for assets and liabilities. See note 16. Deferred tax balance is adjusted to reflect tax rates, based on current tax laws, which will take effect in the years in which temporary differences are expected to reverse. Deferred tax assets are reduced by a valuation deduction when, in management's opinion, it is more likely than not that some or all deferred tax assets will not be realized. See note 16. Derivative Financial Instruments – The Company is a party to forward exchange contracts and options, interest rate swaps, cross-currency swaps and natural gas futures to reduce cash flow exposure against changes in exchange rates and natural gas prices. The Company does not have or issues derivative finance in financial instruments for trading purposes. These instruments are not accounted for the use of hedging accounts, but are measured at fair value and are recorded in the balance sheet as assets or liabilities, depending on the company's underlying rights or obligations. See note 7. Loss per share – As a result of the combinations, the company's capital structure consists of 82,629,906 shares outstanding (see note 14). For the calculation of losses per share, 82,629,906 were used as the number of shares outstanding for periods presented as no new shares were issued as a result of the legal merger of Resolution Performance, Resolution Specialty and Borden Chemical. This presentation reflects the company's capital structure after the merger in all periods on a consistent basis. The company had no potential dilution instruments outstanding for any periods. 79 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements – (Continuation) (In millions excluding share and per share data) The Company's loss per share is calculated as follows: The year ended 30.5) $ (50) Deduction: Redeemable preferred share accretion (30) — - Loss from continuing operations available to ordinary shareholders $ (108) $ (105) $ (50) Per share - Loss from continuing operations available to common shareholders $ (1.30) $ (1.27) $ (0.61) Average number of common shares outstanding in the period - basic and diluted 82,629,906 82,629,906 82,629,906 Share-based compensation - As of January 1, 2015. According to the provisions of SFAS No. 123(R), stock-based compensation costs are measured on the allocation date based on the value of the assignment and are recognised as costs over the required service period. Since the company was considered a non-public entity, on the adoption date, which used the minimum value method for proma disclosure under SFAS No. As such, the Company applies the declaration to any new prices and any prices changed, repurchased or cancelled since 1 January 2015. The adoption of SFAS No. 123(R) had no initial impact on the company's financial condition and operating performance. Previously, the company accounted for share-based prices under APB no. 2005, all outstanding prices under SFAS No. 123(R). See note 15. The tables below determine the required reconciliation of reported and pro forma net loss and earnings per share (EPS) under SFAS No. 148: Year ended December 31, 2004 2003 Net loss, as reported $ (105) $ (50) Add: Share-based employee compensation cost included in reported net income, net related tax effects 8 — Deduction: Total share-based employee compensation cost is determined under fair value based method for all allocations , net related tax effect (6) — Pro forma net loss $ (103) $ (50) Average number of shares outstanding - basic and diluted 82 629 906 82 629 906 Per share, as reported (basic and diluted) $ (1.27) $ (0.61) Per share, proma (basic and diluted) $ (1.25) $ (0.61) 80 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated accounting(Still) (I excluding share and per share data) To determine the proma compensation cost for the plans in accordance with SFAS No. : 2004 2003 Resolution Performance ResolutionSpecial Table Chemical Resolution Performance Risk-free weighted average interest rate 4.50 % 3.90 % 3.54 % 4.23 % Dividend rate 0 % 0 % 0 % 0 % Life expectancy 7.0 years 6.3 years 6 5.5.0 year 6.0 years Estimated fair value of option grants (a) $ — $0.77 $1.01 $ — (a) Fair value of option grants reflects the after-combination corresponding to Hexion LLC common entities that give effect to reverse split (Note 15) Concentrations of credit risk-Financial instruments potentially exposing the Company concentrations of credit risk consist mainly of temporary cash investments and trade receivables. The company places its temporary cash investments with high-quality institutions and by policy limits the amount of credit exposure to an institution. As of December 31, 2005 and 2004, investments included $0 and $52, respectively, in a prime money market account, $0 and $18, respectively, in a guaranteed investment certificate and $29 and $3 of other marketable securities. The remaining cash is held in several financial institutions. Concentrations of credit risk with respect to trade receivables are limited, due to the large number of customers consisting of the company's customer base and their spread across many different industries and geographies. The company typically does not require security or other security to support trade receivables. See note 7. Concentrations of supplier risk – The company relies on long-term agreements with key suppliers for most of its raw materials. Loss of an important source of supply or a delay in shipments can have a negative effect on the business. Should any of the suppliers not deliver or should any of the most important long-term supply contracts be cancelled, the company will be forced to buy raw materials in the open market, and no assurances can be given that the company would be able to make these purchases or turn them into prices that would allow it to remain competitive. A supplier offers over 10% of certain raw material purchases, and we could incur significant time and expense if we had to replace the supplier. In addition, several of the raw materials are transported at different plants through a pipeline from one supplier. If we could not receive these raw materials through these pipeline schemes, the company may not be able to retrieve them from other suppliers at competitive prices or on time. Recently issued accounting standards In November 2004, FASB issued SFAS No. 151, Inventory Costs. The statement amends the Accounting Research Bulletin (ARB) No. Inventory pricing, to prepare accounts for abnormal amounts of inactive facility expenses, shipping, handling costs and wasted material. ARB No. 43 has previously stated that these costs must be as abnormal as requiring treatment as the current period costs. SFAS No. 151 requires that these elements be recognized as current period costs regardless of whether they meet the criterion of such abnormality. In addition, this statement requires that the allocation of fixed production indirectly to the cost of conversion be based on the normal capacity of the production facilities. The statement applies to inventory costs incurred in the fiscal years beginning after 15 June 2015. The Company believes that implementation of SFAS No. 151 should not have any material impact on its consolidated financial position, results of operations or cash flows. 81 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continued) (In millions, excluding share and per share data) In March 2005, FASB issued interpretation no. This interpretation clarifies that the term conditional pension obligation used in FASB No. 143, Accounting for pension liabilities, refers to a legal obligation to perform a pension obligation where the time and (or) method of settlement is contingent on a future event that may or may not be within the unit's control. If an entity is required to recognize a liability for the fair value of a contingent pension obligation, if the fair value of the obligation can reasonably be calculated. The interpretation will take effect for the company at the latest at the end of the financial year ending March 31, 2015. The implementation of this interpretation had no material effect on the company's consolidated financial position, results of operations or cash flows. In September 2005, FASB issued EITF Issue No. The issue provided guidance on the circumstances in which two or more inventory transactions with the same counterparty should be displayed as a single non-monthly transaction within the framework of APB Opinion No. 29, Accounting for non-monthly transactions. The issue also provided guidance on circumstances in which non-mone exchanges of inventory within the same business line shall be recognised at fair value. EITF 04-13 will take effect for transactions completed during reporting periods as of 15 September 2015. The company assesses the impact this issue will have on our consolidated financial statements. In November 2005, FASB issued FSP FAS 123(R)-3, Transitional elections related to accounting for the tax effects of share-based payment prices (FSP 123(R)-3). FSP 123(R)-3 provides an optional alternative method establishes a calculation component to arrive at the beginning of the accumulated 82 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements - (Still) (In millions, excluding share and per share data) capital pool related to employee compensation and a simplified method for determining the subsequent impact on the accumulated paid capital pool of employee prices that are fully earned and outstanding at the adoption of SFAS No. 123(R). We are currently evaluating this transition method. 3. Business Acquisitions 2004 Acquisition of Resolution Specialty August 2, 2004 (closing date) Resolution Specialty, which awarded Resolution Specialty Inc., acquired Specialty Harsins and Monomers and Ink companies of Eastman Chemical Company (Eastman) for $192, including direct acquisition costs (Resolution Specialty Transaction). The solution specialty transaction is accounted for under the accounting purchase method. The cost of the resolution specialty transaction was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair value on the date of acquisition. Real values were determined based on assessments and internal studies. As the fair value of net assets acquired exceeded cost, no goodwill was registered in the transaction. In connection with resolution specialty transaction, Resolution Specialty Inc. a Senior Subordinated Note Purchase Agreement (Seller Note Financing) with Eastman on August 2, 2004, which provided for the sale of $50 overall principal amount Of Senior Subordinated Notes of Resolution Specialty Inc. to Eastman due and paid in 2011. Such notes were delivered to Eastman as a partial assessment of the resolution special transaction. These notes were later repaid on 31 June 2015. See note 8. The table below summarizes the assets acquired and liabilities assumed on the date of purchase for Resolution Specialty. fair value at 1 August 2004 Current assets $196 Property, plant and equipment 87 Other assets 1 Intangible assets — Goodwill — Total assets acquired 284 Current liabilities 80 Long-term liabilities 3 Other liabilities 9 Total liabilities acquired 92 Net assets acquired $ 192 83 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements - (Continuing) (In millions, excluding stock and per share data) 2004 Acquisition of Borden Chemical by Apollo on 12th , 2004, BHI Investment LLC, a subsidiary of Apollo, purchased all outstanding capital holdings of Borden Holdings, Inc. (BHI), Borden Chemical's parent at the time, for total valuation of about $1.2 billion, including assumption of debt. The acquisition of BHI, and payment of transaction fees and expenses, was funded with the net proceeds of a $475 second priority senior secured private debt offer (the Priority Notes) of two newly created, wholly owned subsidiaries of Borden Chemical and certain share contributions to BHI Acquisition from Apollo. Collectively, these transactions are called the Borden transaction. 2005 Acquisition of Bakelite On April 29, 2005, Hexion Specialty Chemicals Canada, Inc., a subsidiary of Hexion, through its wholly owned subsidiary, National Borden Chemical Germany GmbH, completed the acquisition of Bakelite pursuant to a share purchase agreement with RÜTGERS AG and RÜTGERS Bakelite Projekt GmbH (collectively, sellers) dated 6. The Company incurred direct costs related to the acquisition of $42, which has been capitalized as part of the purchase in accordance with SFAS 141 and is included in the net purchase price. Based in Iserlohn-Letmathe, Germany, Bakelite is a manufacturer of phenolic and epoxy thermosets and casting compounds with 13 production facilities and 1,700 employees, mainly in Europe and Asia. The acquisition gave the company additional phenolic resin technology and products and a new technology platform for epoxy resin. The company funded Bakelite Acquisition through a combination of available cash and a second priority senior secured the bridge loan facility in the amount of $250. The bridge financing scheme had a variable rate equal to LIBOR plus a current margin and had a final maturity date of May 15, 2005, the bridge financing scheme was settled and cancelled using income from the $150 other priority secured floating interest notes due 2010 and $100 of the term loan debt borrowed under the company's credit facility (See note 8). The Bakelite acquisition is fiscally created under the accounting method. Bakelite's results are therefore included in the company's consolidated financial statements (The Financial Statements) from the date of acquisition. As of December 31, 2004, to reduce the risk of exposure in foreign currency related to the Bakelite acquisition, the Company entered into a currency position of $235 to buy euros with US dollars at a rate of 1.3430, depending on the end of the transaction. On March 31, 2005, the Company adjusted the contract to have a target resolution date of March 29, 2005. In connection with the completion of the Bakelite acquisition, the Company realized a total loss of approximately $9 on this contract, of which the current year is included as other non-operating expenses in the consolidated financial statements. 84 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continued) (In millions, excluding share and per share data) Below summarizes the fair values in acquired and liabilities assumed at the time of acquisition. Real values are based on refinements, internal studies and analyses and are subject to final adjustments. Fair value at April 29, 2005 Current assets $290 Property, plant and equipment 166 Other assets 4 Intangible assets 72 Goodwill 63 Total assets acquired 595 Current liabilities 172 Long-term liabilities 21 Other liabilities 136 Total liabilities assumed 329 Net assets acquired $266 Of $72 of the $72 of acquired intangible assets, $19 was awarded trade names, $16 was awarded technology and $37 was awarded to customer relationships. The acquired intangible assets have a weighted average life span of approximately 18 years. The trade names have a 30-year lifespan, the technology has a 13-year lifespan and customer relationships have a 14-year weighted average lifetime. Of the $63 of goodwill, $42 was awarded to the Epoxy and phenolic resin segment and $21 was awarded to the Formaldehyde and Forest Products segment. No goodwill is expected to be deductible for tax purposes. The company plans several measures to increase the profitability of Bakelite, including the completion of headcount reductions previously initiated by Bakelite. These measures include reductions in the number of employees, mainly in Germany, Italy and Spain, and the closure of two facilities. The company expects the reductions in the number of employees and plant closures to be completed by 2007. The expenses associated with these measures will be substantially completed by 2009. The purchase price department includes a $23 liability that reflects the estimated cost of the activities (mainly related to reductions in the number of employees). This liability on December 31, 2005 is $19, reflecting severance pay of $2 and a related foreign currency translation of $2.2005 Acquisition of resolution performance and resolution specialty minority interests by combinations, shares of Resolution Performance Inc., former parent of Resolution Performance, and Resolution Specialty Inc. held by minority shareholders and management was exchanged for shares in Hexion LLC. Minority shareholders and management held interests of 28.2% and 5% respectively for resolution performance and resolution specialties on a fully diluted basis. The acquisition of these ownership interests was accounting-based under the accounting and downswing method to the respective acquired businesses. 85 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements (Continued) (In millions, excluding share and per share data) Below summarizes the step up to the fair value of the assets acquired and liabilities assumed at the time of acquisition based on the percentage of ownership acquired from the minority shareholders. Real values are based on preliminary third party appraications and internal studies and are subject to final adjustments. Incremental fair value on May 31, 2005 Current assets $9 Property, plant and equipment Intangible assets 20 Goodwill 56 Other assets 11 Total assets step-up 122 Current liabilities 3 Long-term liabilities 8 Other liabilities 21 Total debt step-up 32 Net assets stepped up $90 As a result of exchange of minority interest shares, Shareholders' deficit was adjusted by $127, consisting of $90 rose up to the fair value of net assets and a $37 reclassification from minority interest to Paid Capital. In addition, $5 and $11 of accumulated other comprehensive income and accumulated deficits were reclassified to paid capital to recognize an accumulated negative basis by minority interest holders whose shares were exchanged. Of $20 of purchased intangible assets, about $17 were awarded patents and $3 was awarded trade names. The acquired intangible assets have a weighted average life span of 17 years. Of $56 of goodwill, $7 was awarded to the Coatings & Ink segment, and $49 was awarded to the Epoxy and Phenolic resins segment. No goodwill is expected to be deductible for tax purposes. The following unaudited financial information for proma combines consolidated results of operations as if Bakelite Acquisition and the combination of Resolution Performance, Resolution Specialty Inc. and Borden Chemical had occurred from the beginning of the periods presented. Pro-form adjustments include only the effects of events that can be directly attributed to the acquisitions. The proma adjustments reflected in the tables below include amortization of intangible assets, depreciation adjustments due to impairment of property, plant and equipment at estimated fair market value, and interest costs on the acquisition debt for the Bakelite acquisition and related tax effects. 2005 2004 Net sales $4717 $4105 Loss from continuing operations (86) (357) Net loss (95) (357) Basic and diluted Share of losses of data from continuing operations $ (1.04) $ (4.32) Net loss (1.15) (4.32) 86 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continued) (In millions, excluding stock and per share data) The following is included in the prota pete from continuing operations : 2005 2004 Payment to Apollo to cancel fee agreements $ 11 $ - The cost of sales related to stock sold that was stepped up on the acquisition date 16 9 $27 $9 Pro form financial information does not necessarily reflect the operating results that would have occurred if the acquisitions were consummated from the beginning of the periods presented , nor is such information indicating future operating results. 4. Discontinued operations In 1998, pursuant to a merger and recapitalization transaction sponsored by The Blackstone Group (Blackstone) and financing arranged by The Chase Manhattan Bank (Chase), Borden Decorative Products Holdings, Inc. (BDPH), a wholly owned subsidiary of the company, was acquired by Blackstone, which later merged with Imperial Wallcoverings to create Imperial Home (IHDG). The company received about $309 in cash and 11% of IHDG common stock for its interest in BDPH. On January 5, 2000, IHDG applied for reorganization under Chapter 11 of the U.S. Bankruptcy Act. IHDG came out of bankruptcy in April 2001. IHDG Litigation Trust (Trust) was created under the plan of reorganization in IHDG bankruptcy to pursue preferences and other avoidance claims on behalf of the unsecured creditors of IHDG. In November 2001, Trust filed a lawsuit against the company and some of its affiliates seeking to have the IHDG transaction annulled as a fraudulent transportation and requested a judgment to be filed against the company for $314 plus interest, costs and attorneys' fees. On June 8, 2005, the Company entered into an agreement with the parties to settle and release all claims against the Company for $15. This amount was later paid by the company in July 2005. Since the settlement directly related to a discontinued business that was recognised as a discontinued business in 1997, the company has included the settlement cost in Loss from discontinued operations in the financial statements. In 1996 and 1997, the company sold its Dairy and Foods businesses. Both disposals were accounted for as discontinued operations in these years. In 2005, the company received $6 settlement from a class-action lawsuit related to raw material purchases of the sold businesses between July 21, 1991 and June 30, 1995. Since the settlement directly related to the previously sold businesses, the company has included the settlement income in Loss from discontinued operations in the financial statements. Typically, losses from discontinued operations are recorded in the financial statements after tax. However, because the company has a full valuation deduction on its domestic deferred tax benefits and fails to realize a tax benefit from these losses, the corresponding benefit has been offset by a full valuation deduction. 5. Related party transactions Administrative Service, Management and Consulting Arrangements In connection with their respective acquisitions of Apollo, Resolution Performance, Resolution Specialty and Borden Chemical entered into certain management, consulting and transaction fee agreements with Apollo and its affiliates for the provision of certain structuring and advisory services. These agreements allowed Apollo and its affiliates to provide certain advisory services to the companies for up to ten years. The companies also agreed to hold Apollo and its affiliates and their directors, executives and representatives of potential 87 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements - (Still) (In millions, excluding stock and per share data) losses related to the services assessed in accordance with these agreements. In addition, at the conclusion of the resolution special and Borden Chemical transactions in the third quarter of 2004, The Company paid $12 for transaction and advisory services, and reimbursed expenses of $1. Considering the layoffs, Resolution Performance and Resolution Specialty paid Apollo $4 and $7, respectively. These amounts are included in transaction-related costs in the Company's consolidated operating statements. At the time of the combinations, the company entered into a seven-year, amended and reworked version of the previous Borden Chemical management consulting agreement with Apollo (Amended Management Consulting Agreement). The terms of the amended management consulting agreement currently provide annual fees of approximately $3 and ensure a one-time settlement equal to the net present value of the remaining annual management fees paid according to the remaining period of the agreement in connection with a sale of the company or an IPO. Under the agreements that apply during the years ended December 31, 2005, 2004 and 2003, the Company paid fees of $4, $2 and $0. 2003 management fee of less than $1 was paid in 2005. These amounts are included in other operating expenses in the company's consolidated financial statements. In December 2005 or 2004, there were no amounts paid to Apollo. In connection with Bakelite Acquisition, in exchange for deal restructuring and negotiations provided by Apollo, the company made payments to Apollo in the amount of $4. These amounts are considered direct costs of the acquisition and are capitalized as part of the purchase. Other transactions and arrangements the Company sells finished goods to a non-consolidated joint venture of the company and certain Apollo affiliates. These sales totaled $25, $11 and $15 respectively for the years ending December 31, 2005, 2004 and 2003, respectively. Trade receivables from these affiliates were $2 and $1, respectively, on December 31, 2005 and 2004, respectively. The company also buys raw materials and services from certain Apollo affiliates. These purchases totaled $12, $12 and $5 for the years ended December 31, 2005, 2004 and 2003. The company had accounts of Apollo affiliates of less than $1 on December 31, 2005 and 2004 related to those purchases. Upon closing the Borden transaction, Borden Chemical paid transaction-related costs of $9 on behalf of BHI Investment LLC, $22 on behalf of BW Holdings, LLC and shared contract incentive costs of $14. These amounts are included in transaction-related costs. Financing and investment arrangements In November 2000, Resolution Performance gave loans to certain managers of Resolution Performance totaling $1 to buy stock of Resolution Performance, Inc. 6. goodwill and intangible assets as at 31.12.2005 and 2004 were the company's the annual goodwill write-down test. As required by SFAS No. 142, Goodwill and Other Intangible Assets, the Company identified the assets (including goodwill) and liabilities to the reporting entities. 88 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements (Continued) (In millions, excluding stock and per share data), the Company determined estimated fair values for the reporting units to assess whether the estimated fair value of each reporting unit was less than the carrying amount of the units' net assets. Real values were determined using a standard methodology based on comparing certain operating calculations of the device with those of a set of comparable companies in the same industry. This method compares market plumes and conditions based on operating results, financial and equity markets across different companies and to the unit being valued. The company used a comparable analytical technique commonly used in the investment banking and private equity industries to estimate the values of its reporting units based on EBITDA (earnings before interest, taxes, depreciation and amortization) several techniques. Under this technique, estimated values are the result of an EBITDA multiple derived from this process applied to an appropriate historical EBITDA amount. As of December 31, 2005 and 2004, the fair value of each reporting unit exceeded the carrying amount of assets and liabilities allocated to the units. The changes in the carrying amount of goodwill by segment for the years ended March 31, 2015 were the first of the most recent 2003 $ - $ - $ - $ - Acquisition 4 23 23 - 50 Foreign currency translation - - 1 - 1 Goodwill balance on December 31, 2004 $4 $23 $24 $ - $51 Acquisition 95 21 - 7 123 Foreign currency translation (4) (1) — (5) Goodwill balance on December 31, 2005 $95 $43 $24 $7 $169 Company's intangible assets with identifiable useful life consists of the following : December 31, 2005 On December 31st, 2004 GrossCarryingAmount AccumulatedAmortization NetBookValue GrossCarryingAmount AccumulatedAmortization NetBookValue Intangible Assets: Formulae and Technology $114 $27 $87 $82 $20 $62 Customer Lists and Contracts 55 5 5 5 5 5 55 1 12 43 20 7 13 Other 33 2 31 2 1 1 $202 $41 $161 $104 $28 $76 The company has $15 and $12 of trade names on December 31, 2005 and 2004 respectively with indefinite life. The impact of foreign currency translation is included in accumulated amortization. 89 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements (Further) (In millions, excluding stock and per share data) Total intangible amortization costs for the years ended March 31, 2015 Estimated annual intangible amortization costs for 2006 to 2010 as follows: 2006 $ 13 2007 12 2008 12 2009 11 2010 9 7. Financial instruments The following tables present the balance sheet or nominal amounts and actual values of the company's financial instruments as of 31.12.2005 and 2004. The fair value of a financial instrument is the estimated amount that the instrument can be exchanged in a current transaction between willing parties, other than in a coercive or liquidation sale. Real values are determined by quoted market prices, where available, or based on other similar financial instruments. The table below includes the carrying amount and fair value of the company's non-related financial instruments as at 31 March 2015. 2005 and 2004: 2005 2004 CarryingAmount FairValue CarryingAmount FairValue Debt $2354 $2319 $1850 $1900 Capitalized amounts of cash and equivalents, trade receivables, suppliers and other provisions are considered reasonable estimates of their fair values. 90 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continued) (In millions, excluding share and per share data) The following table summarizes the company's derivative financial instruments as at 31 March 2015. 2005 and 2004: 2005 2004 Average days to maturity Average contract rate nominal amount Fair value gain (loss) Average days to maturity Average contract rate NotionalAmount Fair value gain (loss) Currency to sell for euro U.S. dollars (1) 27 1.189 0 45 — — US Dollars (1) 990 1.2038 289 5 — US Dollar (1) 60 1.2122 3 — US Dollar (2) 122 1.2031 24 — US Dollar (2) 122 1.2031 24 — U.S. Dollar (2) 122 1.2031 24 — U.S. Dollar (2) 122 1.2031 24 — US Dollar (2) 122 1.2031 24 — US Dollar (2) 122 1.2031 24 — US Dollar (2) 122 1.2031 24 — US Dollar (2) 1 122 1.2031 24 — U.S. Dollar (Dollar (2) — - 90 1.3430 235 2 Currency to sellFor US dollar Canadian dollar (3) - 183 1.3 200 36 - Canadian Dollar (4) — — — 183 1.2300 36 (2) Currency for sale for CDN Dollar British Pound (1) — - 31 2.3255 42 1 CommodityFuture Contracts Natural gas futures - Natural gas futures — 3 1 — - 3 — (2) Agreement contingent forward contracts (for pending or completed acquisitions) (3) Set options purchase on December 31, 2004, the Company had derivative losses of USD 2 classified as Other current liabilities and derivative gains of USD 3 classified as Other assets. Gains and losses are recognised quarterly through the consolidated financial statements. The Company does not have or issues derivative finance in financial instruments for trading purposes. Currency and interest rate swaps International operations account for a significant portion of the company's revenues and operating revenues. It is the company's policy to reduce exposure to foreign currency cash flows due to exchange rate fluctuations by securing expected and firmly committed transactions when it is financially possible. The company enters into forward and option contracts to buy and sell foreign currency exchange exposure and protect the US dollar value of such transactions to the extent of the amount under contract. These contracts are designed to minimize the impact of currency on operating revenues and on certain balance sheet exposures. The company is subject to credit losses in the event of a lack of performance from other parties in the contract. The company evaluates the creditworthiness of its counterparty's financial condition and does not expect default by its counterparties. The company periodically uses interest rate swaps to change the interest rate exposure between fixed and floating interest rates on a certain long-term debt. Under interest swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed interest and floating interest amounts calculated by reference to an agreed notional principal amount. On October 11, 2005, the company entered into a $289 cross-currency and interest swap agreement structured for a non-American. subsidiary's $290 U.S. dollar denominated the concept of loans. Swap is a three-year agreement designed to offset balance sheet and interest rate exposures and cash flow variability related to exchange rate 91 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Still) (In millions, excluding share and per share data) fluctuations on the concept of loans. The euro to us dollar exchange rate under the swap agreement is 1.2038. The company pays a variable rate equal to Euro LIBOR plus 271 basis points. The company receives a variable rate equal to US dollar LIBOR plus 250 basis points. The amount the company receives under this Agreement is equal to the non-US amount. subsidiary interest on its $290 term loan. The net effect of interest rate swaps was a decrease in the company's interest expense of $1 in 2005. In 2005, the company paid a weighted average interest rate of 4.89% and received a weighted average interest rate of 6.61% related to the $289 cross-currency and interest rate swap agreement. As of December 31, 2005, the company entered into a currency position of $24 to buy euros with US dollars at a rate of 1.2031. The contract is contingent on the conclusion of a potential acquisition and has a target settlement date of May 2, 2006. The purpose of the hedging is to reduce the risk of exposure in foreign currency related to the pending transaction. On December 14, 2004, the Company entered into a foreign currency position of $235 to buy the euro with US dollars at a rate of 1.3430. The contract was contingent on the termination of the Bakelite share purchase agreement (see note 3) and had an initial settlement date of March 31, 2015. The purpose of the hedge was to reduce the risk of exposure in foreign currency related to the pending transaction. On December 31, 2004, registered a gain of $2 related to its agreement conditional forward contract. This amount is included as other non-operational income in the consolidated financial statements for 2004. In April 2005, the company recognized a loss of $9 on settlement of the agreement conditional contract. Commodity futures contracts The company is exposed to price fluctuations related to commodity purchases, most significantly with methanol, phenol, urea, acetone, propylene and chlorine. For these commodities, the company has purchase contracts, with periodic price adjustment provisions. For some contracts, the company also adds sales price provisions for customer contracts that are indexed to publicly available indices for these commodities. The Board approves all commodity futures and commodity obligations based on delegations of government documents. The company secures a portion of its natural gas purchases for some of its North American plants. The company used futures contracts to secure 66% and 46% of natural gas use in 2005 and 2004 respectively at these plants. The contracts are settled for cash each month based on the closing price on the last day the contract trades on the New York Mercantile Exchange. Liabilities settled under these contracts amounted to $5 and $2, respectively, in 2005 and 2004, respectively. The Company recorded net gains related to these liabilities of $2 and less than $1 in 2005 and 2004, respectively, which are accounted for each month for which the gas is used. Residual liabilities are marked on the market quarterly. The Company had future liabilities under these contracts of $3 as of

December 31, 2005 and 2004, and recorded an unrealized gain of $1 as of December 31, 2005 related to future liabilities. 92 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continuation) (In millions, excluding share and per share data) 8. Liabilities outstanding debt as at 31.12.2005 and 2004 are as follows: 31. 2005 December 31, 2004 Long term due within a year long-term due within a year rotary credit facilities at an average rate of 6.4% on December 31, 2004 $ - $ - $ - Senior Secured Notes: 8% Senior Secured Notes Due 20 09 (includes $1 of U.S. debt premium on December 31, 2004) (a) 141 - 140 - 9.5% Senior other secured notes due 2010 (includes $2 of U.S. debt premium as of December 31, 2010 , 2005 and $1 on December 31, 2004) (a) 202 - 201 - 9% Second priority senior secured notes due 2014 325 - 325 — Floating rate second priority senior secured notes maturity 2010 of 9.8% and 6.8% by December 31, 2005 and 2004, respectively (includes $2 of U.S. debt discount on December 31, 2005 and $0 on December 31, 2004) 298 — 150 — Credit agreement: term loans are due in 2010 of 6.2% and 5.1% respectively as of 31.1.2005 and 2004 , 493 5 123 2 Debentures, respectively: 9.2% debentures due to 2021 115 115 — 7.875% due 2016 78 — 78 – 13.5% Senior subordinate notes due 2010 (includes $8 of US debt premium as of March 31, 2016). 2005 and $4 on December 31, 2004) (a) 336 - 332 - Selling senior subordinate notes due 2011 (at 7.6% by December 31, 2004) — — 50 — Other: Industrial Revenue Bonds due 2009 (at a fixed rate of 10% in 2005 and 2004) 34 – 34 — Other (with 4.8% and 4.1% as of March 31, 2004). 2005 and 2004) 23 8 7 5 Capital Leases 11 1 4 — Total short term maturity of long-term debt 14 7 Current liabilities (primarily foreign bank loans with an average interest rate of 6.3% and 8.4% on December 31 2005 and 2004, respectively) - 37 - 9 Total debt $2,303 $51 $1,834 $16 (a) December 31, includes 2005 balance purchase accounting adjustments as a result of acquisitions of minority interests. These adjustments have been reflected as US debt premiums. (See note 3) 93 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements - (Continued) (In millions, excluding share and per share data) 31. Senior secured notes Date of origin Interest Payable Early redemption Security / Priority 8% Senior secured banknotes due December 2009 15june 15 December 2006 Hexion-Inventory, trade receivables and certain shares, equal to all senior debt, others to credit facility 9.5% Senior other secured notes due 2010 April 2003 April 15October 15 April 2006 Hexion-Inventory, trade receivables and certain shares, equal all senior debt, second to credit facility and 8% notes 9% Second priority senior secured notes due 2014 August 2004 15July 15 July 2007 (b) Hexion-Inventory, trade receivables and certain shares, equal to all senior debt, second to credit facility Floating Interest second priority senior secured see banknotes are due 2010- at 10% and 6.8% at December 31, 2005 and 2004, respectively (a) August 2004 and May 2005 15April 15Juls 15October 15 July 2006 (b) Hexion- Inventory , trade receivables and certain shares, others to credit facility and 8% Senior secured notes Credit Agreement: term notes due 2010-at 6.2% and 5.1% by December 31, 2005 and 2004, respectively (c) May 2005 At LeastEvery 90 days (d) Substantially all assets in Hexion, except (a) Interest on floating interest notes incurred at an annual rate, reset quarterly, equal to LIBOR plus 550 basis points. There is no declining fund for floating interest notes. (b) Redemption of 35% with equity offer income. Redemption of 100% allowed in July 2009. (c) Interest on the term and rotating loan facilities is LIBOR plus 2.5% or higher of prime rate plus 1% or Federal Funds Rate plus 1.5%. Loans made in Canadian dollars will carry interest rates on Canadian Bankers' Acceptance Rate plus 2.5% or of prime rate plus 1% or average banker acceptance rate plus 1.5%. Loans made in sterling will carry interest rates of LIBOR plus 2.5% or interest rates quoted by JPMorgan Chase Bank, N.A. (JPMCB) as its base rate for such loans plus 1%. Loans denominated in euros will carry interest rates of EURO LIBOR plus 2.5% or the rate cited by JPMCB as its base rate for such loans plus 1%. Interest rates are subject to reduction based on an improved leverage ratio. (d) Repayment of 1% of the term loans per year must be made quarterly with the balance to be paid on the final due date. Additional payments required as of the second quarter of 2007 if the company generates excess cash flow, as defined in the agreement. 94 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Accounts –(Continuing) (In millions, excluding stock and per share data) In May 2005, the Company entered into a new senior secured credit facility (Hexion Credit Facility) and replaced and repaid dissolution performance and resolution specialty credit facilities, including the dissolution performance $150 revolving credit facility entered into on 24, 2005, $100 of the Bakelite bridge loan facility (See Note 3) and Seller Senior Subordinate Notes. Hexion Credit Facility has a $225 revolving credit facility, a $500 term loan facility and a $50 synthetic letter of credit facility (LOC). Repayment of 1% total per year of the term loans and synthetic LOCs must be made (in the case of the term loan facility, quarterly, and in the case of synthetic LOC, annually) with the balance paid on the final due date. Furthermore, we may be required to make further repayments on the concept of loans beginning in the second quarter of 2007 if we generate excess cash flow, as defined in the agreement. On May 31, 2005, the Company issued $500 term loans under hexion Credit Facility of which approximately $300 of the proceeds were used to repay existing debt, including loans under the Resolution Performance $150 revolving credit facility entered into January 24, 2005, $125 term note under the Resolution Specialty facility, $100 of The Bakelite Bridge loan facility (See Note 3) and selling senior notes. The rest was used to pay dividends to the company's mother and transaction costs. The company incurred financing costs of $18 related to the Hexion Credit Facility. These costs are included in other assets in the financial statements and will be amortized over the lifetime of the related debt. Hexion Credit Facility has commitment fees (other than with respect to the synthetic LOC facility) equivalent to 0.5% per year of unused line fee plus a fronting fee of 0.25% of the total face amount for outstanding LOCs. The synthetic LOC facility has a commitment fee of 0.1% per year. As of December 31, 2005, we had no outstanding loans under the revolving credit facility and $54 outstanding LOCs and had additional loans at $221. Some senior secured notes and Hexion Credit Facility include restrictive covenants on debt, payments and distributions, mergers and acquisitions, asset sales, associated transactions, capital expenditures and maintenance of certain financial ratios. Payment of loans under senior secured notes and Hexion Credit Facility can be accelerated in case of default. Non-compliance incidents include non-payment of principal and interest when due, a material breach of representation or warranty, covenant standard, bankruptcy events and a change of control. In the second quarter of 2005, the company incurred a fee for impairment of deferred financing costs totaling $17. Of this amount, $6 was related to the Bakelite Acquisition Bridge loan facility, which was entered into and repaid during the quarter, and $11 was related to the early termination of Resolution Performance, Resolution Specialty and Borden Chemical credit facilities. The expense of USD 17 is included in the write-down of deferred financing fees on the consolidated financial statements. for the year ended December 31, 2005, the Company incurred an unrealized loss of $10, related to a foreign subsidiary's $290 U.S. dollar denominated term loan. The loss is included as other non-operating expenses in the consolidated financial statements. On 11 October 2005, the Company entered into a three-year swap agreement to compensate for balance sheet and interest rate exposures and cash flow variation related to exchange rate fluctuations on the loan. In May 2005, the company issued $150 Second-Priority Senior Secured Floating Rate Notes due in 2010. The proceeds from the notes were used to repay the partial bridge loan facility used to finance Bakelite Acquisition(See note 3). The company incurred financing costs of $4 related to the issuance of Senior Secured Notes. These costs are included in other assets in the consolidated balance sheet and will be amortized during the life of the notes. 95 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements – (Still) (In Millions, excluding Stock and Per Share Data) Debentures Origination Date Interest Salary August 1991 15. April 2006 13.5% Senior subordinate notes due 2010 2000 15 May 2005 November 2005 Other loans The $34 Parish of Ascension Industrial Revenue Bonds (IRB) are related to the purchase, construction and installation of air and water pollution control facilities that are no longer owned by us. The tax exemption status of the IRS is based on the fact that there is no change in the use of the facilities, as defined by the Internal Revenue Code. We continue to monitor the use of the facilities by the current owner. If a change in should happen, we could be required to take remediation measures, including redeeming all the bonds. In addition, the insurer finances certain insurance premiums. Short-term loans under this scheme include $9 and $6 respectively on December 31, 2005 and 2004, respectively. The company's capital lease is included in liabilities on the consolidated accounts and varies from one to three years terms for vehicles, equipment, pipeline, land and buildings. Total maturity of total debt, minimum annual rent under operational leases and minimum payments under capital lease as of 31 2005, for the company is as follows: Year Debt MinimumPayments UnderCapital Leases Minimum RentalsUnder OperatingLeases 2006 $ 50 $ 1 $ 26 2007 14 1 23 2008 18 - 19 19 2009 181 - 14 2010 842 3 11 2011 and beyond 1237 7 13 $ 2342 $ 12 $ 106 Rental expenses totaled $ 27, $15 and $10 in the years ended December 31, 2005, 2004 and 2003, respectively. 96 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continuation) (In millions, excluding share and per share data) 9. Warranties, indemnities and warranties Standard warranties / Indemnity In the ordinary business process, the Company enters into a number of agreements containing standard warranties and liability in which the Company resides from another party for, among other things, violation of representations and warranties. Such warranties or damages are granted under various agreements, including those governing (i) the purchase and sale of assets or businesses, (ii) leases of real estate, (iii) intellectual property licenses, (iv) long-term supply agreements, (v) employees benefits services agreements and (we) agreements with government authorities on subsidies for designated research and development projects. The warranties or replacements issued are for the benefit of (i) buyers in deals and sellers in purchase agreements, (ii) landlords or landlords in leases, (iii) licensors or licensees in license agreements, (iv) suppliers or customers in long-term supply agreements, (v) service providers in employee services agreements and (we) governments or agencies that subsidize research or development. In addition, the company guarantees certain payables of its subsidiaries for the purchase of raw materials in the ordinary business process. These parties may also be replaced against any third party claims arising from the transaction assessed in the underlying agreement. In addition, in connection with the sale of assets and the sale of businesses, the company may agree to indemnified the buyer with respect to obligations related to the pre-closing of the assets or businesses sold. Indemnity related to prior-term activities generally includes tax obligations, environmental obligations and employee benefit obligations that the buyer undertook in the transaction. Indemnity related to the operation of sold assets does not normally represent additional obligations to the Company, but simply serves to protect the buyer from potential liability related to the company's existing obligations at the time of sale. As with any liability, the Company has accrued for the pre-termination obligations deemed to be probable and reasonably reasonable. The amounts recorded are not significant on 31 March 2015. While some of these warranties extend only during the underlying agreement, many survive the expiry of the term of the agreement or extend to perpetual (unless subject to a legal statute of limitations). There are no specific limits on the maximum potential amount for future payments that the Company may be required to make under its warranties, nor is the Company able to develop an estimate of the maximum potential amount for future payments to be made under these warranties, as triggering events are not foreseeable. With respect to certain of the aforementioned warranties, the insurer maintains limited insurance coverage that reduces potential payments to be made. Warranties Company makes no express warranties on its products, other than that they comply with the Company's specifications; The company therefore does not register a warranty liability. Adjustments for product quality requirements are not significant and are charged to sales revenues. 10. Obligations and Situations Environmental conditions Because the Company's activities involve the use, handling, processing, storage, transportation and disposal of hazardous materials, the Company is subject to comprehensive environmental regulation on federal, 97 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated accounts -(Continued) (In millions, excluding equity and per share data) state and local levels as well as foreign laws and regulations, and are therefore exposed to the risk of environmental remediation or restoration requirements. In addition, violations of environmental laws or permits may result in restrictions imposed on operational activities, significant fines, penalties, damages or other costs, which can have a material negative effect on the company's business, financial condition, results of operations or cash flows. Provisions for environmental issues are recorded in accordance with the guidelines in the Statement 96-1, Environmental Remediation Liability, when it is likely that a liability has been incurred and how much responsibility can reasonably be estimated. Environmental provisions are reviewed quarterly and as events and developments guarantee it. The Company has registered liabilities, related to 69 locations (63 as of December 31, 2004), of $39 and $41 as of December 31, 2005 and 2004 respectively for all probable environmental remediation, indemnity and restoration obligations, respectively. These amounts include estimates of infringed claims the Company believes are loss and reasonable estimable. Based on the factors discussed below and currently available information and analysis, the Company believes that it is reasonably possible that the costs associated with such sites may fall within a range of $27 to $79, overall, as of December 31, 2005. This estimate of the extent of reasonable possible costs is less certain than the estimates on which the debt is based, and in order to establish the upper end of such an area, assumptions were less favorable to the company among the extent of reasonable possible outcomes used. As with all estimates, if the facts or circumstances change, the final result may differ materially from these estimates. The following is a more detailed discussion of the Company's environmental obligations and related assumptions as of December 31, 2005: BCP Geismar Site - The Company previously owned a basic chemicals and polyvinyl chloride business that was taken publicly as Borden Chemicals and Plastics Operating Limited Partnership (BCPOLP) in 1987. Borden Chemical retained a 1% interest and the general partner interest, held by its subsidiary BCP Management (BCPM). Borden Chemical also retained responsibility for certain environmental issues following BHP's formation. Under a settlement agreement approved by the U.S. Bankruptcy Court for the District of Delaware among Borden Chemical, BCPOLP, BCPM, the United States Environmental Protection Agency and the Louisiana Department of Environmental Quality, Borden Chemical agreed to carry out certain of BHP's obligations with respect to environmental conditions at BHP's Geismar, Louisiana area. These obligations are related to soil and groundwater pollution at the Geismar plant. The Insurer is solely responsible for these obligations, as there are no other potentially responsible parties (PRPs) or third parties from which the Insurer may seek a refund and no further insurance payments are expected. A groundwater pump and treatment system for the removal of contaminants are in operation, and natural dampening studies continue. The company has carried out extensive soil and groundwater testing. Regulators are reviewing the current findings and remediation efforts. If closing procedures and remediation systems prove to be inadequate, or if further contamination is detected, this could cause costs to approach the higher end of the range of possible results discussed below. The Company has registered a liability of $20 and $21, respectively, on the $31, 2005 and 2004 respectively related to the BCP Geismar website. Based on available information and analysis, the Company believes that it is reasonably possible that the costs associated with this site may fall within a range of $14 to $32, depending on the factors discussed above. Due to the long-term nature of the project, the reliability of timing and the ability to estimate remediation payments, this responsibility was recorded on its net value, provided a 3% discount rate and a period of thirty years, and the range of possible results is discounted in the same way. The non-counted liability is about $30 over thirty years with payments of $7 to be paid ratably between 2006 and 2010. 98 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Accounts - (Still) (In Millions, Excluding Stock and Per Share Data) Superfund Sites/ Offsite Landfills - The Company is currently involved in environmental remediation activities at 29 locations (26 per share data) Superfund Sites/Offsite Landfills - The Company is currently involved in environmental remediation activities at 29 locations (26 in December 31, 2004) where it has been notified that it is, or may be, a PRP under the Comprehensive Response, Compensation and Liability Act of the United States or similar state superfund laws. The Company has registered a liability of $9 and $8 respectively on December 31, 2005 and 2004 respectively related to these sites. The company expects that approximately 60% of this liability will be paid out over the next five years, with the remaining payments occurring over the next 25 years. The company generally does not have a significant responsibility for these facilities, and therefore has little control over the cost and timing of cash flows. At 17 of the 29 facilities, the company's share is less than 1%. At the remaining 12 facilities, the company has a share of up to 8.8% of the total liability accounting for $7 of the total amount reserved for super fund/offsite landfills on December 31, 2005 and 2004. Based on available information and analysis, the company believes that it is reasonably possible that the costs associated with such sites can be as low as $6 or as high as $19, overall. By estimating both its current reserves for environmental remediation at these facilities and the possible range of additional costs, the company has not assumed that it will bear the full cost of remediation of each area to the exclusion of other known PRPs that may be jointly and several responsible. The Company has limited information to assess the viability of other PRPs and their likely contributions per website basis. The range of possible results also takes into account the maturity of each project, resulting in a narrower area as the project progresses. The company's final liability will depend on many factors, including its volumetric share of waste, the financial viability of other PRPs, remediation methods and technology used, the amount of time necessary to achieve remediation, and the availability of insurance coverage. The company's insurance provides very limited, if any, coverage for these environmental issues. Facilities under current ownership – The company conducts environmental remediation at 14 locations (December 15, 2004) which are currently owned by the company, of which 2 facilities are no longer in operation. There are no other parties responsible for remediation in these locations. Much of the remediation is carried out by the company basis; basis; the company has greater control over the costs incurred and the timing of cash flows. The company has accrued $6 and $8 as of December 31, 2005 and 2004 respectively for remediation and restoration obligations at these locations. The company expects that approximately $4 of these liabilities will be paid over the next three years, with the remaining amounts paid over the next ten years. Based on available information and analysis, the company believes that it is reasonably possible that the costs associated with such sites could fall within a range of $4 to $12, overall. The factors affecting the final result include the remediation methods to be selected, the conclusions and assessment of location studies that remain to be completed and the time period required to complete the work. Elsewhere – The company conducts environmental remediation in 10 locations (December 9, 2004) previously owned by Borden Chemical. The company has accrued approximately $3 as of December 31, 2005 and 2004 for remediation and restoration debt at these locations. Based on available information and analysis, the company believes that it is reasonably possible that the costs associated with such sites could fall within a range of $2 to $14, overall. The primary drivers in determining the final costs of the company on these issues are the method of remediation selected and the level of participation of third parties. In addition, the company is responsible for 14 facilities (11 as of 31 December 2004) which require monitoring where no further remediation is expected and has also established provisions for other related costs, such as fines and penalties. The company has accrued about $1 on December 31, 2005 and 2004 related to these sites. Based on available information and analysis, the Company believes that it is reasonably possible 99 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements - (Still) (In millions, excluding stock and per share data) that the costs associated with such sites may fall within a range of $1 to $2, overall. Payment of these obligations is expected to take place within the next ten years. The final cost to the company will be affected by any variations in expected monitoring periods or findings that are better or worse than expected findings. Borden Chemical previously ran Smith Douglas's fertilizer business, which included a phosphate treatment operation in Manatee County, Florida, and an animal food treatment operation in Hillsborough County, Florida. Both operations were sold in 1980. The EPA sent the company and another former owner of the Manatee County facility a request for $0.1 related to oversight costs incurred when the site was abandoned by its current owner. The company disputes the charges. The company is aware that state and federal environmental agencies have taken measures to prevent discharge of water from precipitation that accumulated in the drainage ditches and lagoons around the gypsum piles located on this site. The company is aware that the current owner of the Hillsborough County area ceased operations in March 2004 and is working with state agencies to carry out the closure of this area. At this time, the Company has received an information request from the EPA, but has not received any claims from any government agencies or others regarding the closure and environmental cleanup on this site, which the company believes is the current owner's responsibility. While it is reasonably possible that some costs may be incurred related to these sites, the Company has insufficient information to enable it to estimate a potential area of responsibility, if any. As a result of the Bakelite acquisition, the company purchased an area in Duisburg, Germany with significant soil and groundwater pollution under a plant shared with Rütgers Chemicals AG (Rütgers). Rütgers is in discussions with the municipalities about a proposed remediation plan; However, the scope and scope of this plan and the cost of possible implementation are not yet reasonable. Rütgers has contractually agreed to provide indemnity to the company with respect to this matter until 2025, except for certain exceptions and limitations. Management believes it is unlikely that the company will have to take comprehensive measures for remediation. While it is reasonably possible that some costs may be incurred related to this website, the Company has insufficient information to enable it to estimate a potential area of responsibility, if any. For environmental conditions that existed at Resolution Performance-related locations prior to November 2000, the Royal Dutch/Shell Group of Companies (Shell) will generally indemnity the company for environmental damage associated with environmental conditions that occurred or existed prior to recapitalization in November 2000, subject to certain limitations. There have been no claims against resolution performance since November 2000 related to resolution performance environmental issues; The company therefore has no provisions as of 31.12.2005 and 2004 related to environmental issues for resolution performance. Under the terms of the resolution speciality transaction, Eastman retained responsibility and replaced Resolution Specialty's existing unknown environmental conditions at facilities transferred to us, as well as the existing known environmental condition at the Roebuck, South Carolina facility, subject to certain restrictions. Non-environmental legal conditions the Company has reserved $12 and $21 respectively on December 31, 2005 and 2004 respectively related to all non-environmental legal matters for legal defense and settlement costs that they believe are likely and estimative at this time, respectively. The following is a discussion of non-environmental litigation not in the ordinary business process: Brazil Tax Claim-In 1992, the State Of Sao Paulo Administrative Tax Bureau issued an assessment against our Brazilian subsidiary claiming that excise duties were due to certain intercompany loans made for centralized cash management purposes, characterized by the Tax Agency as intercompany sales. Since 100 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements (Still) (In millions, excluding stock and per share data) at the time, management and the Tax Administration have held discussions and the subsidiary has filed an administrative appeal seeking cancellation of the assessment. The Administrative Court upheld the assessment in December 2001. In 2002, the subsidiary filed a new appeal to the supreme court, and again sought to cancel the assessment. It was argued before the court in September 2004. As of December 31, 2005, the amount of the assessment, including taxes, penalties, monetary correction and interest, is 54 million Brazilian Reais, or about $23. The company believes it has a strong defense against the review and will pursue the appeal vigorously, including appealing to the level of law; However, there is no guarantee that the assessment will not be upheld. At this time, the company does not believe a loss is likely; Therefore, only related legal costs are incurred. HAI Grand Jury Investigation - HAI received a grand jury subpoena dated November 5, 2003 from the U.S. Justice Department antitrust division related to a found grand jury investigation. HAI has provided documentation in response to the subpoena. As is often the case when such investigations are ongoing, various antitrust lawsuits have been brought against the company that claims that we and HAI, along with various other entities, engaged in a price fixing conspiracy. In the fourth quarter of 2005, the grand jury completed its inquiry, and the company and HAI were notified by the U.S. Department of Justice that no charges would be issued and the investigation had been concluded. CTA Acoustics - From the third quarter of 2003 to the first quarter of 2004, six lawsuits were filed against Borden Chemical and others in the 27th Judicial District, Laurel County Circuit Court, in Kentucky, as a result of an explosion at a customer's facility in which seven factory workers were killed and other workers were injured. The lawsuits seek first and foremost recovery for wrongful death, emotional and personal injury, loss of consortium, property damage and damages. The lawsuit also includes claims by the company's customer against the company and the company for property damage. On October 20, 2005, a settlement was reached with representatives of the seven deceased factory workers and twelve seriously injured workers. The company's share of the settlement amount is covered by insurance. The claims and lawsuits by workers for distress and minor damage remains to be resolved. The insurer has previously accrued and has spent $5, the amount of its insurance deductible, related to these actions and has insurance coverage expected to address any additional payments and legal fees. Other legal matters – The Company is involved in various product liability, business and employment proceedings, personal injury, property damage and other litigation deemed to be in the ordinary business process. There has been increased publicity about asbestos debt to industrial companies. Largely, as a result of the bankruptcies of many asbestos producers, plaintiffs' lawyers are increasing their focus on peripheral defendants, including the company, arguing that even products containing a small amount of asbestos caused harm. The plaintiffs also focus on alleged damage caused by other products the company has made or used, including those containing silica and vinyl chloridemonin. The company does not believe that it has a material exposure related to these requirements and believes it has sufficient reserves and insurance to cover currently pending and predictable future claims. The company is named in a lawsuit filed in Hillsborough County, Florida Circuit Court, related to an animal feed supplement treatment site previously operated by Borden Chemical and sold in 1980. The lawsuit has been filed on behalf of several Hillsborough County residents who live near the site and claim various damages related to exposure to toxic chemicals. At this time, the company has insufficient information to estimate a potential area of responsibility, if any. A similar lawsuit brought on behalf of a class of plaintiffs was dismissed by the court in November 2005. 101 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements – (Continued) (In millions, excluding share and per share data) Other obligations and assumptions The Company entered into contract agreements with Shell and other third parties for the provision of construction services, tools, materials and facilities and for the operation and maintenance services necessary to operate certain solution performance facilities on a standalone basis. The duration of the contracts ranges from less than one year to 20 years, depending on the nature of services. Such contracts may be terminated by either party under certain conditions set forth in the respective agreements; In general, 90 days notice is required for short-term contracts, and three years notice is required for long-term contracts (usually these contracts in excess of five years). Contractual pricing typically includes a fixed and variable component. In addition, the company entered into contract agreements with Shell and other third parties for the purchase of raw materials. The terms of the agreements range from three to ten years, which may be extended at the company's request and cancelled by any of the parties in the respective agreements. Commodity prices are based on market prices less negotiated volume discounts or cost input formulas. 11. Redeemable Preferred Share In May 2005, Hexion offered Escrow Corp., a subsidiary of Hexion that merged into Hexion randomly with Combinations, 14 million shares of Redeemable Series A Floating Rate Preferred Stock, parsing $0.01 per share, and a liquidation preference of $25 per share (Preferred Stock). The preferred stock will collect cumulative preferential dividends from the issuance date at an initial rate of LIBOR plus 8.0%, reinforced semi-annually. The dividend increases 75 basis points every six months from 15 November 2005 to 15 May 2007, when the rate is LIBOR plus 11.0%. As of December 31, 2005, the dividend ratio was 13.3%. Dividends will be paid by issuing additional shares in Preferred Stock through May 15, 2010. Dividends will then be required to be paid in cash. After November 15, 2005, the Company has the ability to redeem all or part of Preferred Stock of between 101% and 103% of the total liquidation value plus accrued and unpaid dividends. On May 15, 2007, the company can convert Preferred Stock from a floating rate collateral into a fixed rate collateral, with dividends paid at an annual rate equal to 14.0%. As of October 31, 2014, or in the event of a change in control of the Company, preferred stock shareholders have the opportunity to require the Company to buy back all or part of the Preferred Stock. Due to this mandatory redemption clause, Preferred Stock is considered a mezzanine financing and is registered outside common stock and other shareholder's deficit. The Company expects to use a portion of the revenue it receives from the proposed IPO (see note 1) to redeem preferred stock. On November 15, 2006, the first buyers of Preferred Stock are entitled to receive a transfer fee of 1.5% of the total original liquidation preference of the preferred stock held on this date, which will result in a cash payment of up to $5. The net proceeds from Preferred Stock's issuance were $334, after deducting underwriting expenses and expenses for the offer of $16, and was used in conjunction with the concept of loan debt borrowed under hexion Credit Facility to pay a dividend to his mother on May 31, 2005 (See Note 14). For presentation purposes, the issuance costs were settled on USD 16 capitalized amounts for preferred inventory. These costs are amortized using the effective interest method from the date of issue through 15 June 2015. For accounting purposes, Preferred Stock is considered to increase the preferred stock issued at an implied premium. As such, the implied prize is awarded using the effective interest method from the date of issue through 15 June 2015. For the year ended September 31, 2015, the year ended May 31, 2015, recognised dividend, including accretion of the implied prize, of $30. During the fourth quarter of 2005, the company issued 781,959 shares of preferred share in payment of the first half-year dividend. 12. Pension and retirement savings plans The company sponsors domestic and foreign non-contributory defined benefit pension schemes covering most U.S. and Canadian employees, and foreign employees in some countries. Depending on the plan, benefits are 102 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated accounts -(Continued) (In millions, excluding stock and per share data) based on qualified compensation and/or years of credited service. The benefits for individual hourly employees covered by collective agreements are calculated using a formula based on years of credited service multiplied by fixed benefit multiplier amount established in the respective union contract. Prior to the combination, the measurement dates for the plans were 31 March 2015. As of 2005, the company has chosen to do 31. This change in the measurement date, which affected the Borden Chemical plans, had an insignificant effect on the benefit obligation and expenses recognised for 2005. The following is a rollforward of the expected benefit obligation and assets for the company's performance-based plans for the year ended December 31, 2005 and 2004. 2005 2004 Change in benefit obligation at beginning of year $394 $370 Service costs 13 9 Interest expenses 24 20 Actuarial losses 42 21 Currency exchange rate changes (26) 9 Benefits paid out (29) (35) Acquisitions/sales 114 — Plan changes 12 — 544 394 Change in Plan Assets Fair value of pension assets at beginning of year 300 292 Actual return pension assets 31 25 Changes in the exchange rate (14) 8 Employer's national insurance contributions 31 10 Benefits paid (29) (35) Fair value of pension assets at the end of the year 319 300 Planning funds less than benefit obligation (225) (94) Unknown net actuarial loss 167 156 Unknown previous service cost 9 (3) Net recognised $ (49) $ 59 Amount recognised in the balance sheets , after reclassification of the prepaid pension fund to reflect a minimum pension adjustment for certain plans, consisting of: 2005 2004 Accrued benefit obligation $ (204) $ (80) Prepaid benefit cost — 19 Intangible assets 12 1 Accumulated other comprehensive loss 143 119 Net amount recognized $ (49) $ 59 103 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements - (Continued) (In millions, excluding stock and per share data) The Company's accrued benefit obligation of USD 204 includes USD 37 registered in other current liabilities as of December 31, 2004, including the Company's accrued benefit obligation of USD 80 $7 registered in Other Debt. The company's acquisition of Bakelite in the second quarter of 2005 included two unfunded performance-based plans in Germany, with a total expected profit commitment of $114 on the date of acquisition. Changes to statutory requirements for the Netherlands' plan related to indexing resulted in an actuarial loss during 2005. Also in connection with the acquisition of minority interest owners of Resolution Performance and Resolution Specialty, the resolution pension plans were traded as of March 31, 2015. The accounting for this acquisition resulted in an increase in net pension liabilities of approximately $7 due to recognition of some of previously unknown actuarial losses and prior service costs. The impact of these items on the company's pension cost was about $1. The company amended the Netherlands Plan according to changes to statutory requirements, so that participants can now continue to accrue benefits up to 65 years, compared to 60 years before the change. The foreign currency impact reflected in the rollforward is related to changes in the euro versus the US dollar. The following summarizes defined benefit pension schemes with an accumulated benefit obligation beyond pension assets: 2005 2004 Expected benefit obligation $544 $292 Accumulated benefit obligation 382 283 Fair value of plan assets 319 207 December 31, 2007 In 2004, performance-based plans with assets exceeding the accumulated benefit obligation had an expected benefit obligation of $102, an accumulated benefit obligation of $84 and fair value of plan assets of $93. The following are the components of the net pension expense recognized by the Company for the years ended December 31: 2005 2004 2003 Service costs $13 $7 $5 Interest expense on expected benefit obligation 24 11 5 Expected return on assets (26) (15) (7) Recognized actuarial loss 8 3 — Net pension cost $19 $6 $3 Determination of actuarial assumptions The company's actuarial assumptions are determined separately for each plan, taking into account the demographics of the population , target asset allocations for financed plans, regional economic trends, statutory requirements and other factors that may affect the benefit obligation and assets in the plan. The selected discount rate reflects the rate at which pension liabilities can be effectively settled. When choosing a discount rate, the company takes into account interest rates on government bonds and high-value 104 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements (In millions, excluding stock and per share data) corporate bonds, as well as annuity price information furnished by the Pension Benefit Guarantee Corporation (for U.S. plans) and insurers in the specific countries (for foreign plans) , for instruments with duration in accordance with the duration of the debt measured. Increase in future compensation levels based on wage and wage trends in chemical and other similar industries, as well as the company's specific compensation targets by country. Input is taken from the company's internal personnel group, and outside actuators. The rate includes components for both wage growth and profits increases. The expected long-term return on planned assets is determined based on the plan's current and expected asset. When determining the expected total long-term return on assets, the company takes into account the interest rates on long-term debt investments in the portfolio, as well as expected trends in equity markets, for plans including equity securities. Professional data and historical returns are reviewed, and the company consults with its actuators, as well as investment professionals, to confirm that the company's assumptions are reasonable. The weighted average interest rates used to determine the benefit obligations for the company were as follows: 2005 2004 Discount rate 5.0 % 5.4 % increase in future compensation levels3.6 % 20 %4.1 % The weighted average interest used to determine the net pension cost for the company was as follows: 2005 2004 2003 Discount rate 5 2% 5.7% 6.6.28% Increase in future compensation levels 3.7% 3.9% 4.1% Expected long-term return on pension assets 8.2% 8 2% 8.3% investment Policy and strategies The company's investment strategy for the assets in its North American defined benefit pension schemes is to maximise the long-term return on plane assets using a mix of equities and fixed income investments and accept a prudent level of risk. Risk tolerance is established by careful consideration of plan commitments, plan-funded status and the expected time of future cash flow requirements. The investment portfolio includes a diversified mix of equity and fixed income investments. Furthermore, equity investments are diversified across the United States and non-US. equities, as well as growth, value and small and large capitalization investments. Investment risk and results are measured and monitored continuously through quarterly investment portfolio assessments, annual liability measurements and periodic asset/liability studies. The company periodically reviews its target allocation of North American plane assets among various asset classes. The targeted allocations are based on expected asset performance, discussions with investment professionals and the expected timing of future benefit payments. 105 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continued) (In millions, excluding equity and per share data) The following is a summary of weighted average allocations of plan assets for the Company's North American plans by investment type at the measurement dates for 2005 and 2004, and weighted average targets 2006 allocations: Actual target 2005 2004 2006 North American funds pension Equity securities 62 % 63 % 61 % 34 % 34 % 39 % Cash, short-term investments and other 4 % 3 % — % 100 % 100 % 100 % The company follows local regulations governing its European plans for the determination of asset allocations. The following is a summary of weighted average distributions of plan assets for the company's funded European plans by type of investment at the measurement dates for 2005 and 2004, and weighted average targets 2006 allocations: Actual target 2005 2004 2006 European pension assets Equity securities — % — % 10 % Debt securities 98 % 97 % 88 % Cash, short-term investments and other 2% 3% 2% 100% 100% 100% Estimate of plan contributions and benefit payments The Company expects to make contributions totalling $37 to its performance-based plans in 2006. Estimated future plan benefit payments as of December 31, 2005 are as follows: 2006 $ 34 2007 33 2008 33 2009 33 2010 32 2011 to 2015 160 In 2003, Borden Chemical was informed by the IRS that cash balance plans may be required to be changed due to recent ERISA decisions that found some cash balance plans to be discriminatory. The IRS indicated that the U.S. plan would continue to work as currently designed until new guidance is available. There is insufficient information to assess any consequences for us of the ERISA ruling at this time. Some U.S. employees not covered by the company's U.S. and foreign defined benefit pension schemes are covered by collective bargaining agreements, which are generally effective for five years. Under federal pension law, there would be continued liability to these pension funds if the insurer ceased all or most participation in such trust, and under certain other specified conditions. 106 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Accounts (Continued) (In millions, excluding stock and per share data) Deposit plans The Company sponsors deposit plans for its U.S. and Canadian employees. Full-time employees can participate immediately. Employees can make contributions before tax from 1% to 60% and after tax contributions from 1% to 10% of their salary subject to Internal Revenue Service restrictions. The company offers matching contributions of up to 6%. The company has the opportunity to make additional contributions based on financial results. In addition, the company provides benefits under various defined contribution plans to employees at certain international locations. Total costs of operations for matching contributions under these plans in 2005, 2004 and 2003 were $9, $4 and $1, respectively. Non-qualified and profit-sharing plans The Company provides key managers with non-qualified benefit plans that allow participants to opt for deferral of compensation and also provides pension benefits in cases where managers cannot fully participate in defined benefit or deposit plans due to plan and internal revenue service limitations. Most of the non-qualified benefit plans are unfunded, but some participants may choose to defer up to 50% of their base salary and 100% of their bonus salary in a funded Rabbi trust. Depending on the plan, certain postponements are matched by the company based on many years of service. Some of the company's employees also receive contributions to profit sharing based on age and year of service. Contributions range from 1 to 15% on salaries up to FICA limits and 2 to 20% on salaries in excess of FICA limits. The company's contribution

totaled $1 in 2005 and less than $1 in 2004. Non-retirement benefits The company offers other plans for the benefit after the pension of most North American employees and employees in the Netherlands. These plans give pensioners and their relatives certain medical and (for the older Borden Chemical plan) life insurance benefits. All of the company's postal service benefits are funded on a pay-as-you-go basis. Some business participants who are not eligible for Medicare typically receive the same medical benefits as active employees, while those eligible for Medicare received a subsidy under the plan. In 2004, the company amended one of its retirement medical benefits plans to reduce subsidies given to retirees eligible for Medicare effective January 1, 2005, and to eliminate these subsidies effective January 1, 2006, except in certain cases where contractual obligations exist. As a result of this change, the company's responsibility for medical benefits after retirement was reduced by $8 in 2004, as evidenced by previous service costs, and amortized over the remaining life span throughout 2013. Canadian participants are provided with additional benefits to the respective provincial health care plan in Canada. The domestic postretirement medical benefits are contributing; canadian medical benefits are non-contributing. The domestic and Canadian postretirement life insurance benefits are non-contributing. Prior to the combination, the measurement dates for the plans were 31 March 2015. As of 2005, the company has chosen to do 31. This change in the measurement date, which affected the Borden Chemical plans, had an insignificant effect on the benefit obligation and expenses recognised for 2005. 107 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements (Continuing) (In millions, excluding share and per share data) The following represents amounts for the years ended March 31, 2015. 2005 2004 Change in benefit obligation at beginning of year $25 $39 Service cost 1 - Interest expense 1 3 Actuarial (gains) / loss 4 (4) Plan changes - (2 8) Benefits paid (5) (5) Benefit obligation at end of the year 26 25 Outstanding net actuarial gain 10 22 Unknown previous benefit of service 76 88 Accrued after retirement at the end of the year $ 112 $ 135 The following are the components of the net postretirement benefit recognized by the Company for: 2005 2004 2003 Service costs $ 1 $ - $ - Interest cost on expected benefit obligation 1 1 - Amortization of previous services (12) (12) (2004 4) — Recognized actuarial gain (2) (1) (1) Net performance after benefits $ (12) $ (4) $ (1) In connection with the acquisition of minority interest owners of Resolution Performance and Resolution Specialty , the resolution benefit after retirement obligations were remeasured as of March 31, 2015. This resulted in a decrease in liability of approximately $4 million due to recognition of some of the previously unknown actuarial gains resulting from this adjustment. The impact of this adjustment on the company's postal retention expenses was about $1. The weighted average discount rates used to determine the benefit obligations for the company were 5.7% for both periods presented. The weighted average discount rates used to determine the net postal reciprocement (benefit) cost for the company were 5.7%, 5.7% and 5.8% respectively for the years ended March 31, 2015. The following are the weighted average estimated health cost trends as of 31 2005 and 2004: 2005 2004 Health cost trend rate estimated for next year 8.9% 7.5% Rate as cost The trend is expected to decline (the ultimate trend rate) 4.8% 4.9% Year that rate reaches the ultimate trend rate 2014 2013 108 Table of Contents HEXION SPECIALTY CHEMICALS , Inc. Notes to consolidated financial statements -(Continued) (In millions, excluding equity and per share data) A one percentage point change in the assumed cost trends for healthcare will have the following impact on the company's benefits after pension: 1% increase 1% reduction Effect on total service costs and interest cost components $ - $ - Effect on postretirement benefit obligation 2 (2) Expected benefit payments under the Company's postretir Cement plans as of December 31, 2005 are as follows: 2006 $ 2 2007 2 2008 2 2009 2 2010 2 2011 - 2015 8 Also included in consolidated balance sheets of respectively December 31, 2005 and 2004. Shareholder and other shareholder's (Deficit) Equity 19. The reverse share split was effective on 19 September 2015. All share and per share amounts are retroactively adjusted for all periods presented to reflect 0.85268157-to-1 shares. As a result of the combinations and subsequent shares in return, the company's capital structure consists of 82,629,906 shares outstanding. The company's capital structure is consolidated retroactively in all periods presented. No new shares were issued as a result the legal merger of Resolution Performance, Resolution Specialty and Borden Chemical. In connection with the combinations, Hexion declared a dividend to his parent of $550 and paid $517 on May 31, 2005. Approximately $6 of the unpaid amount was distributed in the third quarter of 2005, and the rest is expected to be paid in the second quarter of 2007 and is classified into other long-term debt. The dividend was financed through the income from the issuance of preferred share and from amounts borrowed under the company's credit facility. As of December 31, 2004, Borden Chemical had a note claim in a total principal amount of $405 and accrued interest of $156 from BHI Acquisition, which was accounted for as a reduction in equity. Note accrued interest of 12% per year, paid quarterly, and Borden Chemical accrued interest quarterly in paid capital. The notes were previously due from Borden Holdings, Inc., Borden Chemical's parent before The 12th Of May 2015. Historically, Borden Holdings, Inc. financed the payment of the interest on the note through the common dividend received from Borden Chemical. Borden Chemical had not received payment on the accrued interest, and borden Chemical had not paid an associated dividend since 15 September 2015. In connection with the combinations, the note (including $176 of accrued interest to the date of the combinations) was reclassified to paid capital. 109 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continuation) (In millions, excluding share and per share data) 15. Stock option plans and stock-based compensation Before combinations, resolution performance, resolution specialty and BHI acquisition (now Hexion LLC) maintained five stock-based compensation plans: Resolution Performance 2000 Stock Option Plan (Resolution Performance Plan), Performance 2000 Resolution Director Plan), Resolution Performance Unit Plan, Resolution Specialty 2004 Stock Option Plan (Resolution Specialty Plan), and BHI Acquisition 2004 Stock Incentive Plan. In addition to these plans, the company's mother maintains a share-based deferred compensation plan. The options given under each of these plans were for the purchase of the common stock of the parent company of each of the respective companies; after the combinations, the share options under the Resolution Performance Plan, resolution performance director plan, Resolution Performance Unit Plan and Resolution Specialty Plan were exchanged for corresponding options according to the 2004 Incentive Plan based on relative fair value. As such, none of these options are denominated in the Company's shares from the date of the combinations. The Company does not intend to provide future option grants from these plans pursuing combinations, plans to adopt a new plan in which future grants of options to buy the company's shares will be made. September 20, 2005, a .464637297-to-1 reverse stock split of Hexion LLC common units was made effective. All common unit amounts related to options issued by Hexion LLC to the Company's employees and directors are retroactively adjusted for all periods presented to reflect 0.464637297-to-1 reverse share split. Resolution performance plan; Resolution Performance Director Plan Resolution Performance Inc. adopted share option plans according to which options with respect to a total of 727 134 shares by combination and reverse split basis are available for grants. The right to provide options under the plans expires in 2010. Options provided under the plans are or will be either non-qualified or incentive share options. A third of the options are ratably over a five-year period, while the remaining Resolution Performance Options west after the eighth anniversary of the award date. The solution performance options offered for accelerated earnings on the sale of Resolution Performance Inc. and achievement of certain financial goals. Options are granted at fair market value on the allocation date and expire eight years from the date of allocation. As a result of the combinations, all options provided under the Resolution Performance Director Plan earned and were exercised. Resolution Performance Unit Plan It is a grant for a total of 191,276 Hexion LLC restricted units outstanding under the Resolution Performance Unit Plan, which was given to a person on 14 May 2015. The rights under the plan are fully earned and non-pre-cowardly. The restricted units will be distributed to the individual at the earliest of their termination of employment or a change of control event, or by January 1, 2009. Resolution Specialty Plan In August 2004, Resolution Special Inc. initiated the its share option plan for 2004 in accordance with which options with respect to a total of 1,027,197 shares by combination and reverse split basis are available for grants. The right to grant options in the option plan expires on the 10th anniversary of the decision date of the Board of Directors. Options granted according to the plan shall be non-qualified stock options. A third of the options will be ratably over a five-year period, while the remaining Resolution Specialty Performance Options west after the eighth anniversary of the award date. Resolution Specialty Performance Options provided for accelerated earnings on sale by Resolution Specialty Inc. and achievement of certain financial goals. Options are granted at fair market value on the allocation date and expire eight years from the date of allocation. As a result of the combinations, the accelerated earning criteria for resolution specialty options were met and 647,229 options with an average price of $3.51 and a 6.6-year weighted average the term was exercised. Borden Chemical Plans As a result of the Borden transaction, all 4,968,250 of the options for buying the table chemical stock, provided under predecessor board chemical option plans, were terminated, resulting in recognition of $4 of expenses. In August 2004, BHI Acquisition (now Hexion LLC) adopted the BHI Acquisition 2004 Stock Incentive Plan, as in accordance with which up to 3,670,635 options to purchase Hexion LLC entities are available for grants to employees, consultants and independent directors of Hexion. The right to provide options under this plan expires 110 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements - (Still) (In millions, excluding stock and per share data) on the 10th anniversary of the adoption of the plan. On August 12, 2004, Hexion LLC offered options to purchase 2,519,860 Hexion LLC member units, half of which are ratably over a five-year period, while the remaining (Performance Options) west after the eighth anniversary of the award date. Performance options ensure accelerated earnings when selling Borden Chemical and achieving certain financial goals. The options were given at fair value, but were treated as variable because the options were responsible prices with the value determined by a formula. In 2004, the company recorded no expenses under APB No. 25 related to these options, as their formula value was less than the exercise price. As of December 31, 2005, under the 2004 Incentive Plan, there were 1,244,467 options available for future grants. The following is a summary of the historical option activity related to these plans, on corresponding, after-combination and reverse split basis, for the year ended March 31, 2005: Hexion LLCCommonUnits WeightedAverageExercisePrice options outstanding at 1 December 4, 2004 4,147,232 $6.31 Options exercised 19,660 7.93 Options given 116,991 9.06 Options lost 96.615 6 .89 Outstanding Options on December 31st, 2005 4,147,948 $6.36 Exerciseable on December 31, 2004 111.241 $12.14 Exerciseable by December 31 , 2005 1,242,564 $5.50 December 31, 2005 the range of executive prices on a post-combination and reverse split basis was $3.51 to $29.42 and weighted average remaining contract life was 7.3 years. The weighted average grant date fair value of options granted during 2005, 2004 and 2003 was $9.06, $5.64 and $9.49, respectively. The total intrinsic value (which is the amount at which the share price exceeded the exercise price of the options on the date of training) of options exercised during the years ended December 31, 2005, 2004 and 2003 was $ 0. For the years ended December 31, 2005, 2004 and 2003, the amount of cash received from the exercise of stock options and the amount of associated tax assets realized was less than $1. Stock-based compensation 111 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial (In millions, excluding share and per share data) On 1 January 2005, the Company decided to adopt SFAS No. 123(R) (revised 2004), share-based payment. Since the company was considered a non-public entity, on the adoption date, which used the minimum value method for proma disclosure under SFAS No. As such, the Company applies the declaration to any new prices and any prices changed, repurchased or cancelled since 1 January 2015. In connection with the filing of a registration statement, which is net but effective, with the SEC for a proposed IPO of its common stock, the Company was subject to the measurement requirements as a public company and thus measured its liability-appointed prices. In addition, changes were made to the awards under the 2004 Incentive Plan and the share-based deferred compensation plan to allow the value of the options to be determined by fair market value rather than by formula. Also, certain board members' options provided under the Resolution Performance Plan and the Resolution Specialty Plan, which would have been lost on the combinations, were changed to allow immediate earnings. These equity modifications were processed in accordance with the provisions of SFAS No. 123(R) and affected the options held by 195 participants. As a result of this remeasures and modifications related to combinations to resolution performance plan, resolution specialty plan, 2004 Inventive plan and deferred compensation plan, the company recognized a compensation cost of $12 for the year ended December 31, 2005, which is included in Sales, General and Administrative Expenses. The Company expects to realize additional compensation costs of $19, which will be accounted for over the earnings period for the underlying share-based awards. The cost is expected to be accounted for ratably over a weighted average period of 4.9 years. On May 11, 2005, Hexion LLC issued options to purchase a total of 84,423 member units to the Company's three non-executive directors. These options have a ten-year lifetime of immediate earnings and training on an IPO. Upon completion of an IPO, the Company will recognize expenses of $1, representing the fair value of the options on the allocation date determined by the Black-Scholes pricing model. On October 30, 2005, Hexion LLC offered options to acquire 28,141 member entities for a new non-executive director, all of which were earned at the time of the grant. The company's compensation cost was calculated using The Black-Scholes pricing model with risk-free weighted average interest rates from 2.83% to 4.24%, life expectancy of 0.22 to 8.22 years based on the simplified method, a dividend rate of zero and expected volatility of 30%. The expected volatility target was based on a calculation that took into account a) the ten historical daily volatility and b) the implied volatility of six comparable public companies. The company has used an annual confiscation rate of 93% to estimate future termination behavior. The fair value of the company's common shares was calculated using a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization) approach, which is a valuation technique commonly used by the investment banking community. Under this technique, estimated enterprise values are the result of an EBITDA multiple derived from comparison with comparable company lumps used on an appropriate EBITDA amount. The equity value is then calculated by subtracting the amount of the company's net debt from the estimated enterprise value. Stock-based deferred compensation plan in 2004, some key employees of the Company were awarded 1,007,944 deferred joint storage units under the Hexion LLC 2004 Deferred Compensation Plan (TheFerred Compensation Plan), which is an unfunded 112 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements (Continued) (In millions, excluding stock and per share data) plan. Each entity entitles the grant unit to a share of the common stock of Hexion LLC, following the completion of a confiscation period. The confiscation period for 686,395 of the deferred units expired on 10 September 2015. The confiscation period for the remaining 321,549 deferred units expired on March 31, 2015. The Company recorded $0 and $4 of expenses related to the Deferred Compensation Plan for the years ended December 31, 2005 and 2004, respectively; the related credit is in paid capital. 16. Income Tax Comparative analysis of the company's income tax cost (benefit) related to continuing business follows: 2005 2004 2003 Current Federal $ - $ (5) $ — State & Local 11 7 — Foreign 40 1 – Total $51 $3 $ - Deferred Federal $1 $ (11) $ (22) State & Local — (1) (1) Foreign (4) 9 (14) Total $ (3) $ (3) $ (37) Income tax (benefit) $ 48 $ - $ $ (37) A reconciliation of the company's differences between income tax related to continuing business calculated to the federal statutory tax rate of 35% and provisions for income tax are as follows : 2005 2004 2003 Income tax calculated on federal statutory tax rate $ (10) $ (40) $ (35) State tax provision, net federal benefits 2 (4) (2) Foreign tax differences (11) 1 (5) Foreign source income also subject to U.S. Taxation 4 9 — Losses and other non-deductible expenses for tax 8 12 — Change in valuation deduction 4 1 (33) — Additional tax on foreign non-waived profit 1 61 — Impairment of net operating loss — 17 — Long-term impairment of assets — — 4 Change in the approved tax rate - (10) - Adjustment of previous estimates and other 13 (13) 1 Tax charge (benefit) 48 — $ (37) 113 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to consolidated financial statements -(Continued) (In millions, domestic and foreign components of the Company's loss (income) from continued operations before income tax are as follows: 2005 2004 2003 Domestic $155 $126 $72 Foreign (126) (13) 28 $29 $113 $100 Tax effects of the company's significant temporary differences, and net operating losses and credit carrying, which include deferred tax assets and liabilities as of 31.12.2005 and 2004 , are as follows: 2005 2004 Assets Non-pension liabilities defined benefit liabilities $40 $42 Accrued and other expenses 100 65 Loss and credit rates carryfor 299 260 Pension liabilities 38 26 Real estate , plant and equipment 10 16 Other — 9 Gross deferred tax assets 487 418 Valuation deduction (239) (192) Net deferred tax assets 248 226 Liabilities Property, facilities, equipment and intangible assets (257) (243) Unwritten income from foreign subsidiaries (63) (66) Amortization of intangible assets (29) (30) Other — (4) Gross deferred tax liability (349) (343) Net deferred tax liability $ (101) $ (117) The table below summarizes the Company's presentation of its net deferred tax (liability) asset on the combined balance sheets as of December 31 , 2005 and 2004: 2005 2004 Assets Current Deferred Income Tax (Other Current Assets) $25$14 Long-Term Deferred Income Tax (Other Assets) 17 - Current Deferred Income Taxes (Other Deferred Income Taxes (Other Current Deferred Income Taxes Other current liabilities) (4) — Long-term deferred income tax (139) (131) Net deferred tax liability $ (101) $ (117) 114 Table of Contents HEXION SPECIALTY CHEMICALS , INC. Notes to consolidated accounts – (Still) (In millions, excluding stock and per share data) The consolidated tax expense from 2005 mainly reflects a federal tax benefit registered at the statutory rate, offset by an increase in the domestic valuation deduction related mainly to net operating losses that may, or may not, be realized. In addition, the provision reflects a $8 tax charge for non-taxable expenses primarily related to the combinations, as well as a $9 tax charge related to an increase in state tax provisions. The foreign tax differences reflect a release of valuation deductions in foreign jurisdictions related primarily to a wholly owned subsidiary in the Czech Republic. This subsidiary generated significantly better earnings compared to the previous year, using net operating losses for which a valuation deduction was previously registered. In the third quarter of 2005, the Company completed a revised earnings estimate and determined that it was more likely than not that the deferred tax assets would be realized and the remaining valuation deduction of $16 was no longer necessary; the valuation deduction was therefore released. In addition, the foreign tax difference includes an increase in tax preparedness for foreign locations in the Netherlands and Germany, offset by a reduction of a previously established tax preparedness due to a settlement with competent authority Canada. The settlement with with The Authority of Canada resulted in a tax refund of $6, received by the company in February 2006. Also included is a cost of $16 related to taxes on a foreign exchange gain from the settlement of an intercompany loan. The consolidated tax expense for 2004 mainly reflects a provision of $61 for taxes related to the non-waived profit to some of the company's foreign subsidiaries. Management has determined that after the acquisition of Borden Chemical by Apollo, earnings could no longer be considered permanently invested. In addition, the provision also reflects a tax charge of $12 for non-taxable expenses primarily related to the Borden transaction and a tax benefit of $10 for a reduction in the Netherlands tax rate from 34.5% to 30.0%. Hexion LLC and its eligible subsidiaries file a consolidated U.S. federal tax return. Since Hexion LLC is not a member of the registrant, the tax attributes in the tables above are not reflected. But because Hexion LLC is the company's mother, the company has the ability to leverage Hexion LLC's attributes. These attributes consist of $130 of deferred interest deductions, which have significant restrictions on their use, and $25 of net operating losses that expire as of 2020. Hexion LLC maintains a full valuation fee against these properties, as it is more likely than not that any portion of these assets will not be realized. As of December 31, 2005, the Company has a valuation deduction of $239 for a portion of its net deferred tax assets that management believes, more likely than not, will not be realized. In the United States, a consolidated return will be filed, and future taxable income and loss of the consolidated group may be offset. The valuation deduction was also assessed taking into account the company's total deferred taxes according to the combinations. At the time Borden Chemical and Resolution Specialty became part of the combined group, resolution performance had a $50 net deferred tax liability and Borden Chemical and Resolution Specialty had valuation allowances on part of its deferred tax assets. These valuation quotas were reduced by $50 based on Resolution Performance's net deferred tax liability position. Of this amount, $2 was registered as part of the purchase account, and the rest was credited with paid capital. The company's deferred tax benefits include federal, state and foreign net operating losses that are further. The federal net operating loss carryforwards available is $420, which expires starting in 2020. The company's deferred assets also include minimum tax credits of $33, which are available indefinitely, as well as capital losses of $88, which were generated in 2003 and expire in 2008. A valuation allowance of $211 is given against these attributes. The Company had not depreciates income from some foreign subsidiaries of $59, where deferred tax is not provided because such considered permanently invested outside the United States. The Company currently has no IRS audits ongoing; However, one of the company's US subsidiaries is currently being audited by the Tax Ation Act, which ends on March 31, 2017. For Borden Chemical, the years 2002 to 2005 are still open for examination. For Resolution Performance, the years 2001 to May 31, 2005 remain open for examination. Resolution Specialty first 2004 and short period 2005 to May 31, 2005 remains open for examination. As of December 31, 2005, the company has $32 accrued for probable state tax liability. As the various tax authorities continue with their audit/survey programs, the company will adjust its reserves accordingly to reflect these settlements. The current annual provision includes an increase in the state tax reserve of $9. The increase is a direct result of several state lawsuits being settled against taxpayers in 2005. The Canada Revenue Agency recently completed its audit through the Competent Authority for the years 1996-1999. The current provision reflects a reduction in a previously established liability of USD 1. The Canadian Revenue Agency is currently auditing the company's Canadian subsidiary for the year 2001-2002. The Dutch Tax Authority is currently investigating a Dutch subsidiary of the company for the tax year 2000-2002. Net operating losses transferred from this period resulted in $18 in tax refunds in the fourth quarter of 2003. The Dutch tax authority has not issued a formal notice of shortage, and the company will aggressively contest any proposed adjustments. The German tax authority is currently investigating a German subsidiary of the company for the tax year 2000-2003. Although the final resolution of any proposed adjustments is uncertain and may involve troubled areas, based on available information, the company has provided the best estimate of probable tax liability for such cases. 115 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements – (Continuation) (In millions, excluding share and per share data) 17. Segment information Our organizational structure is based on the products we offer and the markets we serve. During the fourth quarter of 2005, we changed our reportable segments to better reflect the transition phase from the previous organization of our pre-merger companies to the company's organizational structure during the later half of 2005. The transition provides greater adjustment of the respective operating divisions and reporting segments. As of December 31, 2005, our organizational structure consisted of four operating divisions: Epoxy and Phenolic resins, Formaldehyde and forest products resins, coatings and inks, and performance products. A brief summary of the operating divisions, which correspond to the company's reportable segments, is as follows: • Epoxy and phenolic resins: Includes operations mainly from the resolution and Bakelite older companies and phenolic resin operation of Borden Chemical heritage company. Major products include epoxy resins and intermediates, molding compounds, versai acids and derivatives, specialty phenolic resins and epoxy coating resins. • Formaldehyde and forest products Resins: Includes formaldehyde and forest products that are mainly operated by the Borden Chemical legacy company. Major products include Forest products resins and formaldehyde applications. • Coatings and inks: Includes operations from the Resolution Specialty legacy company. Major products include composite resins, polyester resins, acrylic resins, alkyd resins and ink resins and additives. • Performance products: Includes oilfield products and foundry applications from the Borden Chemical legacy company. Major products include phenolic encapsulated substrates for oilfield service applications and foundry applications. All historical segment information included herein has been reworked to match our current segment reporting. The changes in previously reported segment information are simply a reclassification of activity among the Company's segments, and they do not affect any of the Company's previously reported consolidated results. The company began implementing further improvements to its operating divisions in 2006 to connect similar products more closely, minimizing divisional limits and improving 116 table of contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements (Continued) (In millions, excluding stock and per share data) The Company's ability to serve common customers from post-merger company relationships may result in further improvements to the Company's reporting segments. Operating segments: The following is a comparison of net sales, Segment EBITDA, depreciation and amortization costs, total assets and capital expenditures by reportable segment. Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash and one-time costs. Segment EBITDA is the primary performance measure used by the Company in evaluating operating results and in determining allocations of capital resources among our segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation. Corporate and Others mainly represent certain group general and administrative expenses that are not allocated to the segments. Net sales to unaffiliated customers (1)(2): 2005 2004 2003 Epoxy and phenolic resins $1909 $1096 $2 Formaldehyde and forest products resin 1281 458 - Coatings and inks 886 325 — Performance products 394 140 — $4.470 $ 2019 $ 782 Segment EBITDA (1) : Epoxy and Phenolic resins $245 $93 $61 Formaldehyde and Forest Products Res 152 51 — Coatings and inks 63 26 — Performance products 52 16 — Companies and Others (43) (10) — (1) Intersegment sales are not significant and , as such, eliminated segmentet (2) Nettosalg og Segment EBITDA i 2005 inkluderer Bakelite-resultater fra oppkjøpsdatoen 29. Nettosalg og segment EBITDA i 2004 inkluderer Resolution Specialty resultater fra 2 august 2004 og Borden Chemical resultater fra 12 august 2004, deres respektive datoer for oppkjøp av Apollo. 117 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements—(Continued) (In millions, except share and per share data) Depreciation and Amortization Expense: 2005 2004 2003 Epoxy and Phenolic Resins $ 91 $ 66 $ 58 Formaldehyde and Forest Products Resins 29 11 — Coatings and Inks 14 4 — Performance Products 8 3 — Corporate and Other 6 2 — Total $ 148 $ 86 $ 58 Total Assets at Year End: 2005 2004 Epoxy and Phenolic Resins $ 1,931 $ 1,465 Formaldehyde and Forest Products Resins 555 542 Coatings and Inks 385 400 Performance Products 177 171 Corporate and Other 161 118 Total $ 3,209 $ 2,696 Capital Expenditures: 2005 2004 2003 Epoxy and Phenolic Resins $ 51 $ 28 $ 18 Formaldehyde and Forest Products Resins 22 7 — Coatings and Inks 18 18 — Performance Products 10 2 — Corporate and Other 4 2 — Total $ 105 $ 57 $ 18 118 Table of Contents HEXION SPECIALTY CHEMICALS , INC. Notes to Consolidated Financial Statements—(Continued) (In millions, except share and per share data) Reconciliation of Segment EBITDA to Net Loss: 2005 2004 2003 Segment EBITDA: Epoxy and Phenolic Resins $ 245 $ 93 $ 61 Formaldehyde and Forest Products Resins 152 51 — Coatings and Inks 63 26 — Performance Products 52 16 — Corporate and Other (43) (10) — Reconciliation: Items not included in Segment EBITDA Transaction costs (44) (56) — Non-cash charges (30) (2) (13) Unusual items: Purchase accounting effects/inventory step-up (16) (10) — Discontinued operations (9) — — Business realignment (9) (3) — Other (31) (7) — Total unusual items (65) (20) — Total adjustments (139) (78) (13) Interest expense, net (204) (117) (77) Write-off of deferred financing fees (17) — — Income tax (expense) benefit (48) — 37 Depreciation and amortization (148) (86) (58) Net loss $ (87) $ (105) $ (50) Items not included in Segment EBITDA Transaction costs include merger costs related to the Bakelite Acquisition and the Combinations and expenses associated with terminated acquisition activities. Ikke-kontantgebyrer representerer nedskrivninger av varige driftsmidler og goodwill, aksjebasert kompensasjon og urealisert valutatap på gjeldsinstrumenter som er denominert i andre valutaer enn den funksjonelle valutaen til innehaveren. Opptrinnsjusteringen for innkjøpsregnskap/lageropptrinn for 2005 er knyttet til virkelig verdi-opptrinnet av oppløsningsytelsens lagerbeholdningsverdi som følge av kombinasjoner og virkelig verdi-opptrinn av Bakelites lagerbæringsverdi som følge av Bakelite-oppkjøpet. Opptrinnsjusteringen for innkjøpsregnskap/lageroppstilling for 2004 er knyttet til virkelig verdi-opptrinnet av vedtak stock bearing value as a result of the solution special transaction. The results of discontinued operations are not included in our Segment EBITDA target (see note 4 to the consolidated financial statements). The adjustment of the business represents construction closure costs, including construction employees' final consideration, and environmental remediation costs related to closing time, as well as other employees' final considerations. Other unusual items not included in Segment EBITDA represent expenses that management considers non-recurring. In 2005, these elements consisted mainly of certain non-recurring litigation expenses, a loss in foreign currency on an exchange rate hedge related to the Bakelite acquisition, integration costs and incremental non-recurring advisory and external audit fees related to the Bakelite acquisition and combinations. In 2004, other unusual items included incremental expenses incurred as a result of mechanical failure at a Brazilian formaldehyde plant, and costs related to the integration of resolution specialty transactions. 119 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements – (Continued) (In millions, excluding stock and per share data) Geographic information sales to unaffiliated customers: (1) 2005 2004 2003 US $2252 $1038 $349 Netherlands 629 563 430 Canada 331 331 331128 - Germany 285 2 - Other International 973 288 3 Total $4470 $2,019 $782 (1) In connection with geographical disclosures attributed to the sale to the country where the company's individual business locations live. Long lived assets: 2005 2004 US $670 $655 Netherlands 286,347 Germany 121 11 Canada 78 73 Other International 241,237 Total $1,396 $1,323 18. Underwriter/non-guarantor subsidiary financial information In connection with the Apollo acquisition of Borden Chemical, Borden Chemical formed two wholly owned financial subsidiaries to borrow $475 through a private debt offer. The Company and some of its U.S. subsidiaries guarantee this debt. In addition, following the Hexion combination, the Company, the same U.S. subsidiaries, and Hexion U.S. Finance Corporation (formerly known as Borden U.S. Finance) also guarantee the senior secured debt previously issued by Resolution Performance (Performance Resolution guaranteed debt). The following information contains condensed consolidation financial information for the parent company, Hexion, subsidiary issuers (Hexion U.S. Finance Corporation, formerly known as Borden U.S. Finance Corporation, Hexion Nova Scotia Finance, ULC, formerly known as Borden Nova Scotia, ULC (Nova Scotia, ULC), and HSC Capital Corporation, formerly known as Resolution Performance Capital Corporation (HSC Capital)), the combined subsidiary guarantor stones (Borden Chemical Investments, Inc., Borden Chemical Foundry, Inc., Lawter International, Inc., Borden Chemical International, Inc. and Oilfield Technology Group, Inc.) and subsidiaries that are not guarantors, which include all of the company's foreign subsidiaries and HAI. Borden Services Company was merged into the company in the fourth quarter of 2005. Three of the subsidiary 120 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to Consolidated Financial Statements (Continued) (In millions, excluding stock and per share data) guarantors, BDS Two, Inc., Bakelite North America Holding Company and Bakelite Epoxy Polymers Corporate, were merged into the Company on March 28, 2015. All subsidiary issuers and subsidiary guarantors are 100% owned by Hexion. All guarantees are full and unconditional and are common and multiple. There are no significant restrictions on the company's ability to raise funds from its domestic subsidiaries through dividends or loans. While the Company's Australian subsidiary and HAI are limited in the payment of dividends and intercompany loans due to the terms of their credit facilities, there are no significant restrictions on the company's ability to raise money from the remaining US non-guarantor subsidiaries. This information includes distributions of the company's indirect costs to the combined non-guarantor subsidiaries based on net sales. Tax expense is given on the combined non-guarantor subsidiaries based on actual effective tax rates. All other tax expenses are reflected in the parent. 121 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements (Dollar in Million) YEAR ENDED December 31, 2005 CONDENSED CONSOLIDATION STATEMENT OF OPERATIONS HexionSpecialtyChemicals, Inc. SubsidiaryIssuers (1) CombinedSubsidiaryGuarantors CombinedNon- Guarantor Subsidiaries Eliminations Consolidated Net Sale $2164 $ - $85 $ 2517 $ (296) $ 4470 Sales Cost 1.905 — 85 2.113 (295) 3.808 Gross Profit 259 — — 4044 (1) 662 Sales, General and Administrative Expenses 202 — 5 193 — 400 Transaction Costs 33 — — 11 — 44 Inter Royalty Expenses (Income) 25 — (25) — Other operating expenses (income) (3) — (2) 15 — 10 Operating income 2 — 22 185 (1) 208 Interest costs, Interest costs, net 133 56 — 15 — 204 Impairment of deferred financing fees 9 6 — 2 — 17 Intercompany interest expense (income) 18 (59) (1) 42 — — Other non-operating expenses (income) (5) 4 — 17 — 16 (16) (Other non-operating expenses (income) (5) 4 — 17 — 16 (16) (Other non-operating expenses (income) (5) 4 — 17 — 16 (Loss) income from continuing operations before tax and minority interest (153) (7) 23 109 (1) (29) Tax expense (29) Tax expense (153) (7) 23 109 (1) (29) Tax expense (29) Tax expense (1 benefits) 15 (2) — 35 — 48 (Loss) income from continuing operations before equity income and minority interest (168) (5) 23 74 (1) (77) Equity in subsidiaries, net 93 — 7 2 (100) 2 Minority interest in net income for consolidated subsidiaries (3) — (3) (Loss) income from continuing operations (78) (5) 30 76 (101) (78) Loss from discontinued operations 9 — — - 9 Net (loss) income $ (87) $ (5) $ 30 $ 76 $ (101) (87) (1) Subsidiary issuers include Hexion USA Finance and Finance HSC Capital and Nova Scotia, ULC. Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 122 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements - (Continued) (Dollar in Million) YEAR ENDED December 31, 2004 CONDENSED CONSOLIDATE STATEMENT OF OPERATIONS HexionSpecialtyChemicals, Inc. Subsidiaries, Implies (1) CombinedSubsidiaryGuarantors CombinedNon- Guarantor Subsidiaries Eliminations Consolidated Net Sales 1038 -$33$1061 $ (113) $ 2019 Sales Cost 934 — 32 932 (113) 1 785 Gross Profit 104 — 1 1 29 — 234 Sales, General and Administrative Expenses 70 — 2 91 — 163 Transaction Costs 34 — — 22 — 56 Intercompany royalty expenses (income) 6 — (6) — Other operating expenses (income) 4 — (1) 3 — 6 Operating income (loss) (10) — 6 13 — 9 Interest expense, net 99 16 — 2 — 117 Intercompany interest expense (income) — (17) — 17 — — Other non-operating expenses 1 — — 4 — 5 (Loss) pre-tax profit and minority interests (110) 1 6 (10) — (113) Tax expense (benefits) (12) — — — — — (Loss) earnings before equity income and minority interests (98) 1 6 (22) — (113) Equity in earnings (loss) of subsidiaries, net (15)) - 2 - 13 - Minority interests in net loss of consolidated subsidiaries 8 - 8 Net (loss) income $ (105) $ 1 $ 8 $ (22) $ 13 $ (105) (1) Subsidiary issuers include Hexion U.S. Finance Corporation, HSC Capital and Nova Scotia, ULC. Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 123 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements (Continued) (Dollar in Million) YEAR ENDED December 31, 2003 CONDENSED CONSOLIDATED OPERATING STATEMENT HexionSpecialtyChemicals, Inc. SubsidiaryIssuers (1) CombinedSubsidiaryGuarantors CombinedNon- Guarantor Subsidiaries Eliminations Consolidated Net Sale $359 $ - $ — $442 $ (19) $ 782 Sales Cost 311 — - 422 (19) 714 Gross Profit 48 — — 20 — 68 Sales, general and administrative expenses 35 — — 46 — 81 Other operating expenses (income) 13 — — (3) — 10 Operating losses — — — (23) Interest expense, net 74 — — 3 — 77 Intercompany interest expense (income) (6) — — 6 — — Loss before income tax and minority interests (68 — — (32) — (100)) tax benefit (23) (14) (37) Loss before equity income and minority interests (45) — — (18) — (63) Equity in loss of subsidiaries, net (18) - - 18 - Minority interest in net loss of consolidated subsidiaries 13 - 13 Net (loss) income $ (50) $ - $ - $ (18) $ 18 $ (50) (1) Subsidiary issuers include Hexion U.S. Finance Corporation, HSC Capital and Nova Scotia, ULC. Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 124 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements - (Continued) (Dollar in Millions) December 31, 2005 CONDENSED CONSOLIDATION BALANCE SHEET HexionSpecialtyChemicals, Inc. Subsidiaries Related Assets Current Assets Cash and Equivalents 8-$-$-175-$183 Trade Receivables, net 205 - 14 386 - 605 Customers from associated companies 55 24 26 128 (233) — Inventories: — Finished and in the process lasts 132 — 7 153 — 292 Raw materials and supplies 60 — 5 88 — 153 Other current assets 95 — 1 36 — 132 555 24 53 966 (233) 1 365 Other assets Investment in subsidiaries 482 — 17 — (499) — Intercompany receivables on loans 5 652 — 34 (691) — Other assets 4 21 — 78 — 103 491 673 17 112 (1,190) 103 Property and equipment, net 656 — 9,731 — 1,396 Goodwill 63 — 106 — 169 Other intangible assets, net 94 - - 82 - 176 Total Assets $1859 $697 $79 $1997 $ (1423) $3,209 DEBT, REDEEMABLE PREFERRED STOCK, COMMON SHARE AND OTHER SHAREHOLDER (DEFICIT) EQUITY CURRENT LIABILITIES Accounts and drafts payable $215 $ - $10 $278 $ - $503 Suppliers to affiliates 110 2 13 108 (233) — Liabilities payable within one year 13 — — 38 — 51 Payable interest 24 20 — 1 — 45 Taxable income tax 45 — — 46 — 91 Other current liabilities 158 — 2 88 — 248 565 22 25 559 (233) 938 Other liabilities Long term liabilities 1.00 368 625 — 310 — 2303 Intercompany loans to be paid 222 — — 469 (691) — Long-term pension liabilities 51 — — 2 116 — 167 Non-pension obligations 104 — — 15 — 119 Deferred tax liability 26 — — 113 — 139 Other long-term commitments 75 — — 17 — 92 1,846,625 — 1040 (691) 2,820 Minority interest in consolidated subsidiaries 8 — — 3 — 11 Preferred Stock 364 — — 364 Common Stock and other shareholder (Deficit) Equity (924) 50 54 395 (499) (924) Total liabilities, Redeemable Preferred Stock, Common Stock and other shareholder (Deficit) Equity $1,859 $697 $79 $1,997 $ (1423) $3,209 (1) Subsidiary issuers include Hexion U.S. Finance , HSC Capital og Nova Scotia, Scotia, Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 125 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements - (Continued) (Dollar in Millions) December 31, 2004 CONDENSED CONSOLIDATION BALANCE SHEET HexionSpecialtyChemicals, Inc. Subsidiaries Related Assets Current Assets Cash and Equivalents 63 - $9$80 $ - $152 Customers, net 198 - 15 305 - 518 Customers from associated companies 10 — — — (10) — Inventor 152 — 8 130 — 290 Raw materials and supplies 52 — 6 57 — 115 Other current assets 43 — 1 10 10 64 518 — 139 582 — 1,139 Other assets Investment in subsidiaries 507 — 16 — (523) — Intercompany receivables from loans 189 482 12 — (683) — Other assets 29 19 — 47 — 95 725 501 28 47 (1 206) 95 Property and equipment, net 636 — 8 679 — 1323 Goodwill 35 — — 16 — 51 Other intangible assets, net 82 - - - 6 - 88 Total Assets $1,996 $501 $75 $1,330$(1206)$2,696 LIABILITIES AND SHAREHOLDER (DEFICIT) EQUITY Short-term debt Accounts and drafts payable 228 -$9$251$-$488 Accounts payable to associated companies 2 (14) 15 — (3) — Liabilities to be paid within one year 8 — — 8 — 16 Payable interest 22 14 — 36 Taxable income tax 33 — — 33 Other current liabilities 84 — 2 244 3 133 377 — 26,303 — 706 Other liabilities Long-term liabilities

1,348,475 — 11 — 1,834 Intercompany loans to be paid250 — — 433 (683) — Long-term pension liabilities 71 — — 2,73 Commitments to non-pension benefits 120 — — 22 — 142 Deferred tax liability 34 — — 97 — 131 Other long-term liabilities 51 — 1 13 — 65 1 874 475 1 578 (683) 2 245 Minority interest in consolidated subsidiaries 54 — — 54 Shareholder's (Deficit) Equity (309) 26 48 449 (523) (309) Total liabilities and shareholder (deficit) Equity $11,996 $501 $75 $1,330 $ (1206) $2,696 (1) Subsidiary issuers include Hexion U.S. Finance Corporation, HSC Capital and Nova Scotia, In 1999, the 10 Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 126 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the consolidated financial statements - (Continued) (Dollar in millions) YEAR ENDED DECEMBER 2005 CONDENSED CONSOLIDATION STATEMENT OF CASH FLOWS HexionSpecialtyChemicals, Inc. SubsidiaryIssuers (1) CombinedSubsidiaryGuarantors CombinedNon- Guarantor Subsidiaries Eliminations Consolidated Cash Flows from (Used in) Operating Activities $ (171) $ 118 $ 18 $ 206 $ - $ 171 Cash Flows (used in) from Investing Activities Capital expenses (57) — (1) (47) — (105) Acquisitions of businesses, net cash acquired (4) — — (248) — (252) Proceeds from sale of operations — - 3 — - 3 Investment in subsidiaries 100 — — — (100) — 39 — 2 (295) (10 0) (354) Cash flows from (used in) Financing activities Net short-term debt loans (repayments) 3 — — (5) — (2) Borrowings of long-term debt 452 398 — 343 — 1193 Long-term repayment liabilities (435) (250) — (65) — (750) Income when issuing preferred stock, net issuance costs 334 — 334 Associated loans (repayments) loans 239 (262) (8) 31 — Long-term liabilities and credit facility financing fees paid (11) (4) — (7) — (22) IPO-related expenses (11) — — — (11) Dividend payout (494) — (21) (108) 100 (523) 77 (118) (29) 189 100 219 Effect of exchange rates on cash and equivalents — — — (5) — (5) Increase (decrease) in cash and equivalents (55) — (9) 95 - 31 Cash and equivalents at the beginning of the year 63 - 9 80 - 152 Cash and equivalents at the end of the year 8 -$175 175 -$183 (1) Subsidiary issuers include Hexion U.S. Finance Corporation, HSC Capital and Nova Scotia, ULC. Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 127 Table of Contents HEXION SPECIALTY CHEMICALS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS(ContinueD) (Dollar in million) YEAR ENDED DECEMBER 31, 2004 CONDENSED CONSOLIDATE THE ACCOUNTS OF CASH FLOWS HexionSpecialtyChemicals, Inc. Subsidiaries Eliminations Consolidated cash flows (used in) from operating activities $ (298) $ — $ 41 $ 225 $ (32) Cash flows (used in) from capital activities - Capital expenditures (37) — (1) (19) — (57) Acquisition of the business, net cash purchased 17 — (24) (145) — (152) Cash combination of Borden Chemical 185 — — 185 Proceeds from sale (purchase) of business 260 — — — (260) — — Income from sale of assets 2 — 2 — — 4 427 — (23) (42 4) — (20) Cash flows from (used in) Financing Activities Net current liabilities (repayment) loans (9) — — 3 — (6) Loans of long-term debt 256 — — 37 — 293 Repayment of long-term debt (156) — (1) (38) — (195) Associated loan (repayment) loans (270 — 14,256 — Received dividend (paid) 23 — (22))) — — Income related to Solution Specialty Transaction 60 — 60 Other (4) — (4) (100) — (9) 257 — 148 Effect of exchange rates on cash and cash equivalents — — — 7 — 7 Increases in cash and equivalents 729 - 9 65 - 103 Cash & equivalents at the beginning of the year 34 - - 15 - 49 Cash & equivalents at end of year 63 - $9 $80 $ - $152 (1) Subsidiary issuers include Hexion USA Finance Corporation, HSC Capital and Nova Scotia Ulc. Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 128 Table of Contents HEXION SPECIALTY CHEMICALS, INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -(ContinueD) (Dollar in million) YEAR ENDED DECEMBER 31, 2003 CONDENSED CONSOLIDATION STATEMENT OF CASH FLOWS HexionSpecialtyChemicals, Inc. SubsidiaryIssuers(1) CombinedSubsidiaryGuarantors CombinedNon- Guarantor Subsidiaries Eliminations Consolidated Cash Flows (Used in) From Operating Activities $ (110) $ - $ $ - $ (43) Cash Flow more from (used in) Investment activities Capital expenditures (15) — — (3) — (18) Distributions from equity associated companies — — - 2 - 2 Income from asset sales — — - 23 — 23 (15) — - 22 - 7 Cash flows from (used in) Financing activities Loans of long-term debt 651 — — 97 — 748 Repayment of long-term debt (474) — (171) — (645) Other (22) — — — (1) — (23) 155 — — (75) — 80 Effect of exchange rates on cash and cash equivalents - - - 1 - 1 Increase in cash and equivalents 30 - - 15 - 45 Cash and equivalents at the beginning of the year 4 - - 4 Cash and equivalents at the end of the year $ 34 $ - $ 15 $ 15 $ - $ 49 (1) Subsidiary issuers include Hexion USA Finance Corporation, HSC Capital and Nova Scotia, ULC. Hexion U.S. Finance Corporation is also a guarantor of resolution performance guaranteed debt. HSC Capital is also a subsidiary guarantor of the debt issued by Hexion U.S. Finance Corporation and Nova Scotia, ULC. The primary asset of Hexion U.S. Finance Corporation is an intercompany receivable from Hexion (the parent) for $197, which is essentially offset by the debt to be paid. HSC Capital has no significant assets. 129 Table of Contents HEXION SPECIALTY CHEMICALS, INC. Notes to the Consolidated Financial Statements - (Continuing) (Dollar in Millions) 19. Quarterly Financial Data (Unaudited) The following represents quarterly financial data for the Company: 2005 Quarters First(1) Second(2)(3) Fourth(4) Fourth(5) Net Sales $1,012 $1,171 $1.1 134 $1,153 Gross Profit 149 167 170,176 Transaction-related Expenses 22 5 10 Net loss available to common shareholders (10) (62) (19) (26) Basic and diluted, per share of common shares : Net loss loss to regular stock-basic and dilution-wise $ (0.12) $ (0.75) $ (0.22) $ (0.32) Average number of outstanding shares- basic and dilutive 82 629 90 6 82,629,906 82,629,906 82,629,906 (1) Results include $10 unrealized loss on a conditional forward contract related to Bakelite Acquisition. (2) Includes data for Bakelite from the date of acquisition, 30. (3) Results include (i) $17 impairment of deferred financing fee; (ii) $10 unrealized loss related to a U.S. dollar denominated $290 term loan on a Dutch subsidiary's books; (iii) $9 of incremental sales costs related to the purchase accounting effects from inventory ups and downs related to the Bakelite acquisition and the dissolution performance acquisition; and (iv) $1 unrealized gain on a conditional forward contract related to Bakelite Acquisition. Upon settlement of this contract in the second quarter, net realized loss was $9. (4) Results include (i) $10 adverse impact from Hurricanes Katrina and Rita due to lost sales and incremental expenses; and (ii) $7 of incremental sales costs related to the purchase accounting effects from inventory ups and downs related to the Bakelite acquisition and the resolution performance acquisition. (5) Results include (i) $17 adverse impact from Hurricanes Katrina and Rita due to lost sales and incremental expenses; and (ii) $9 impairment charge related to certain foreign long-term assets. 2004 Quarters First 2nd 3rd (1) (2) Fourth (3) Net Sale $222 $241 $618 $938 Gross Profit 25 22 66 121 Transaction-Related Expenses — - 47 9 Net losses available to common shareholders (8) (7) (79) (11) Basic and diluted, per share of common stock: Net loss applies to common stock-basic and dilution value $ (0.09) $ (0.09) $ (0.96) $ (0.13) Average number of outstanding shares- basic and diluted 82 6 29 906 82 629 906 82 62 629 906 82 629 906 (1) Includes data for resolution specialty from 2. , 2004 and for Borden Chemical from August 12, 2004, their respective dates of acquisition of Apollo. (2) Results include (i) $10 of incremental cost of sales related to purchase accounting effects from stock step-up related to Resolution Specialty Acquisitions; and (ii) $2 of costs associated with a Brazilian reactor failure. (3) Results include (i) $2 unrealized gain on a conditional forward contract related to Bakelite Acquisition; and (ii) $1 of the costs associated with a Brazilian reactor fault. 20. Subsequent events Acquisition of decorative coatings and adhesives Business unit of Rhodia Group january 31, 2006, the company purchased decorative coatings and adhesive business unit of The Rhodia Group (Rhodia Acquisition). The Rhodia business had a turnover of approximately $180 million in 2004, with 8 production facilities in Europe, Australia and Thailand. The acquisition was financed through a combination of available cash and existing lines of credit. Acquisition of Global Wax Compounds Business of Rohm Haas March March In 2006, the company acquired the global wax connections business of Rohm and Haas (Rohm and Haas Acquisition). The purchase included Rohm and Haas' wax connections technology and product lines, manufacturing equipment and other business assets. The acquisition was financed through available cash. The acquisition of Global Ink and Adhesive Resins Business of Akzo Nobel 25. The company produces resins used to produce ink for commercial printing and packaging, digital ink for laser and photocopying printing, and pressure-sensitive adhesives used in tape and labeling applications. The business generated 2004 sales of about $200 million, and includes 10 manufacturing facilities in Europe, North America, Argentina, Asia and New Zealand. Closure should take place after the successful completion of normal government assessments and consultations with employee work councils, which the company expects to take place during the second quarter of 2006. The acquisition will be financed through a combination of available cash and existing lines of credit. The company expects that the total purchase price for these three acquisitions will be approximately $155 million. 130 Table of Contents REPORT FROM INDEPENDENTLY REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and shareholder of Hexion Specialty Chemicals, Inc.: In our opinion, based on our audits and reports from other auditors, the consolidated financial statements listed in the accompanying index present quite, in all essential respects, the financial position of Hexion Specialty Chemicals, Inc. and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in accordance with accounting principles generally accepted in the United States. In addition, in our opinion, based on our audits and reports from other auditors, the financial statements plan listed in the accompanying index presents fairly, in all material respects, the information provided there when it is read in connection with the related consolidated financial statements. These financial statements and the financial statement are the company's management's responsibilities. Our responsibility is to express an opinion on these financial statements and the financial statements based on our audits. We did not audit the accounts of Hexion Specialty Chemicals Canada, Inc., a wholly owned subsidiary, whose statements reflect total assets of $953 million as of December 31, 2005 and total revenue of $1,181 million, for the year ended December 31, 2005 nor revised the financial statements and accounting schedule for Borden Chemical, Inc., a company that has been consolidated with other entities to form the Company , what statements reflect the total assets of As of December 31, 2004, total revenue of $702 million for the period August 12, 2004 to December 31, 2004. These statements and schedule were revised by other auditors whose reports thereafter have been given to us, and our opinion expressed herein, to the extent that it relates to the amounts included for Hexion Specialty Chemicals Canada, Inc. and Borden Chemical, Inc., is based solely on reports from the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (USA). These standards require us to plan and carry out the audit to obtain reasonable assurance if the accounts are free of material misinformation. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessment of the accounting principles used and significant estimates made by management, and evaluation of the overall accounting presentation. We believe that our audits and reports from other auditors provide a reasonable basis for our opinion. PRICEWATERHOUSECOOPERS LLP Columbus, March 2006 131 Table of Contents REPORT FROM INDEPENDENTLY REGISTERED PUBLIC ACCOUNTING FIRM TO THE Board of Directors and the shareholder of Borden Chemical, Inc.: We have revised the consolidated balance sheet of Borden Chemical, Inc. (a wholly owned subsidiary of BHI Acquisition Corp., a majority-owned subsidiary of BHI Investment, LLC) and subsidiaries (The Company) as of December 31, 2004, and associated consolidated financial statements and comprehensive losses, shareholder deficits and cash flows for the period as of December 12, 2004. Such accounts are not presented separately herein. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (USA). These standards require us to plan and carry out the audit to obtain reasonable assurance if the accounts are free of material misinformation. The company is not required to have, nor was we engaged to carry out, an audit of its internal control over financial reporting. Our audit included the assessment of internal control over financial reporting as a basis for the design of audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. That's why we don't express such meaning. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements, assessment of the accounting principles used and significant estimates made by management, as well as evaluation of the total financial statement We believe that our audit provides a reasonable basis for our opinion. In our opinion, such consolidated financial statements present fairly, in all essential respects, the financial position of Borden Chemical, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the period from August 12, 2004 to December 31, 2004, in accordance with accounting principles generally accepted in the United States. As discussed in note 20, the accompanying balance sheet has been reworked. deloitte & touche llp columbus, ohio April 24, 2005, except for the effect of Notes 20 and 21, as the dates are April 27, 2005 and August 18, 2005, Respectively, 132 Table of Contents Schedule II – Valuation and Qualifying Accounts BalanceDecember 31 2002 Charged for Calculating Fee to Other Acct Write-Downs BalanceDecember 31 2003 Remuneration for Questionable Accounts $2 $1 $0 $0 $3 BalanceDecember 31.2003 Add ResolutionSpecialtyAugust 1, 2004 Add BordenChemicalAugust 12.2004 Charged to Be Write-downs BalanceDesember 31.2004 Remuneration for Questionable Accounts 3 $ 3 $13 $1 $(5) $15 BalanceDecember 31.2004 Add BakeliteApril 29, 2005 Charged ForUtfell Charge to Other Acct Write-downs BalanceDecember 31.2005 Remuneration for Questionable Accounts $15 $6 $4 1 (7) $ 19 133 Table of Contents ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS REGARDING ACCOUNTING AND FINANCIAL DISCLOSURE None. SECTION 9A. CHECKS AND PROCEDURES At the end of the period covered by this annual report on Form 10-K, we conducted an evaluation, under supervision and with the participation of our disclosure committee and our management, including our President and CEO and our Executive Vice President and CFO, on the effectiveness of the design and operation of our disclosure checks and procedures in accordance with Exchange Act Rules 13a-15 (e) and 15d-15 (e). Based on this evaluation, the President and CEO and Executive Vice President and CFO concluded that our disclosure controls and procedures were effective in ensuring that information we are required to disclose in reports that we submit or submit under the Exchange Act, recorded, processed, summarized and reported within the time periods set out in the SEC's rules and forms, and that such information accumulates and communicates to our management, including our CEO and Chief Financial Officer, as needed, to allow prompt decisions if necessary disclosure. Changes in internal control: As a result of the combinations and bakelite acquisition, management has changed/expanded roles and responsibilities for key personnel and made changes to certain financial e-sealing processes, tax accounts, shared services and financial reporting. As part of the integration of Bakelite, Resolution Specialty and Resolution Performance, the company continued the process of some of the tax accounting, transaction processing and general accounting activities of Bakelite, Resolution Specialty and Resolution Performance, into a common transaction processing environment for shared services with corporate and North American activity related to the previous Borden Chemical operation. We have also recently launched a project to transfer more legacy systems and multiple SAP® systems into a single, company-wide SAP® system. Once fully implemented, this change to a shared services business model (for certain processes) along with a single, enterprise-wide SAP® system is intended to further improve our internal control over financial reporting and our operational efficiency. There were no other changes in the Company's internal control over financial reporting during the Company's last fiscal quarter that would have a significant impact or will reasonably affect the Company's internal control over financial reporting. OTHER INFORMATION ARTICLE 1.01 Entering into a substantial final agreement 13. (a). Authorized payment of cash bonuses for fiscal year 2005 to its senior executives under the 2005 Management Incentive Plan, which is filed as exhibit 10 (v).1 to the Company December 31, 2004 Form 10-K/A filed on August 23, 2005. Bonus awards were earned based on the company's achievement of certain financial performance goals, as described in the plan and management's achievement of individual performance goals. (b). Approved the company's 2006 Management Incentive Plan (2006 plan). The 2006 plan is substantially similar to the company's 2005 Management Incentive Plan. Under the 2006 plan, participants earn cash bonus compensation based on the achievement of certain individual performance goals and the company's achievement of financial measures. Each participant's target price is based on a percentage of the base salary. The financial measure for the 2006 plan for senior officers is an EBITDA measure approved by the compensation committee. The target price is weighted 70% on the company's performance of financial measures and 30% on individual performance targets. Under the plan, a minimum of 25% of the target price is paid if 90% of the economic target is achieved and a maximum of 200% of the target price is paid if 108% of the economic target is achieved. The financial measure and target pricing applicable to our senior executives are different from those applicable to other 2006 Plan participants. Target percentages for our named executive officers are: C. Morrison -100%, W. Carter-65%, J. Bevilaqua- 60%, L.K. Smith 50% and S. Coffin 50%. On February 27, 2006, we announced internally that Jeffrey M. Nodland, Executive Vice President and Director of Coatings and Ink the company was due to leave the company on June 30, 2015. Nodland's departure is in conjunction with our sophistication of the company's operations departments to connect similar products more closely, minimise divisional boundaries and improve our ability to serve ordinary customers. Mr. Nodland's position will not be replaced. PART III ITEM 10. DIRECTORS AND CEOS OF THE REGISTRANT listed below are the names, ages and current positions of our CEOs and directors as of December 31, 2005. Name-ageing Craig O. Morrison 50 Director, Chairman, President and CEO William H. Carter 52 Director, Executive Vice President and Chief Financial Officer Marvin O. Schlanger 57 Director, Vice Chairman Joseph P. Bevilaqua 50 Executive Vice President, President - Formaldehyde and Forest Products Resins Jeffrey M. Nodland 50 Executive Vice President, President - Coatings and Inks Layle K. Smith 50 Executive Vice President, President - Epoxy and Phenolic Repices S. Antonvich 45 Executive Vice President and General Counsel Sarah R. Coffin 53 Executive Vice President , President – Performance Products Nathan E. Fisher 40 Executive Vice President – Global Procurement Kevin W. McGuire 45 Executive Vice President – Chief Information Officer Richard L. Monty 58 Executive Vice President – Environmental Health and Safety Raymond H. Glaser 45 Vice President – Strategy and Development Nipesh Shah 31 Vice President – Six Sigma George F. Knight 48 Senior Vice President – Finance and Treasurer Joshua Harris 41 Director Scott M. Kleinman 32 Director Robert V. Seminara 33 Director Jordan C. Zaken 31 Director Craig O. Morrison was elected to president and CEO effective March 25, 2002 and Chairman on June 29, 2005. Prior to joining our company, he was president and ceo of Alcan Packaging's pharmaceutical and cosmetic packaging business from 1999 to 2002. From 1993 to 1998, he was president and general manager of Van Leer Containers, Inc. Prior to joining Van Leer Containers, Morrison served in a number of management positions in General Electric's Plastics division from March 1990 to November 1993, and as a consultant at Bain and Company from 1987 to 1990. He is a member of the board's executive and environmental health and safety committee. William H. Carter was elected executive vice president and chief financial officer effective March 3, 2015. Throughout his tenure with us, Carter has been instrumental in restructuring our holdings, including being a director and interim president and CEO of a former subsidiary, BCP Management Inc., from January to June 2000. Before joining our company in 1995, Carter was a partner with Price Waterhouse LLP, which he joined in 1975. In addition, Carter was director of BCP Management, Inc. and WKI Holding Company, Inc., both of which delivered a petition under Chapter 11 of the Bankruptcy Act in 2002. He is a member of the Board's Environment and Safety Committee. Marvin O. Schlanger was elected board member and vice chairman of the board of directors of the company on 29 May 1999. Schlanger was chairman and CEO of Resolution Performance and Resolution Performance Capital Corporation since November 2001 until the combinations ended. Since October 1998, Schlanger has been principal of the cherry hill chemical investments, LLC, which provides management services and capital to chemical and allied industries. Schlanger is also a director of UGI Corporation, and before the combinations he was director and chairman of the Board of Resolution Performance Capital and Resolution Specialty Materials, Inc. He is chairman of the Board of the Environment and Safety Committee. Joseph P. Bevilaqua is executive vice president and president of Formaldehyde and Forest Products Resins, a position he has held since January 2004. Bevilaqua joined the company in April 2002 as vice president – Corporate Strategy and Development. From February 2000 to March 2002, he was vice president and general manager of Alcan's global plastics 134 table of contents. Prior to Alcan, Bevilaqua served in management positions at companies such as General Electric, Woodbridge Foam Corporation and Russell-Stanley Corporation. Jeffrey M. Nodland was appointed executive vice president and president of coatings and inks at the conclusion of the combinations. Nodland has been ceo and chief operating officer of Resolution Specialty Materials since the company's inception in August 2004. Previously, Nodland was president and chief operating officer of Resolution Performance and Resolution Performance Capital Corporation from July 2001 to July 2004. Before 2000, Nodland was vice president and general manager, Coatings, ink, textiles and composites for Eastman Chemical Company. From 1994 to 2000, he had various leadership capacities, including president and CEO of McWhorter Technologies, Inc. Prior since 1977, Mr. Nodland held various positions in The Valspar Corporation, and most recently served as president of the McWhorter division. Layle K. Smith was appointed executive vice president and president of Epoxy and phenolic resins at the conclusion of the combinations. Smith has been managing director of Resolution Performance and Resolution Performance Capital Corporation since September 2004. Smith was previously CEO and director of NxtPhase Corporation from February 2002 to February 2004. From 1998 to November 2001 he served in several roles in Ballard Power Systems, including President and Chief Operating Officer and Board of Directors. Prior to September 1998, Smith held various positions at The Dow Chemical Company as business vice president - Specialty Chemicals. S. Antonvich was appointed executive vice president and general attorney general of the company at the conclusion of the combinations. Antonvich has been senior vice president, attorney general and corporate secretary of Resolution Performance and Resolution Performance Capital Corporation since January 1, 2004. Previously, Antonvich was vice president and attorney general for resolution achievements from 8. From August 2000 to May 2001, he was a senior adviser to EGEP Inc., where he was responsible for international oil and gas transactions and provided legal support for fixed assets in India. From 1995 to 2000, Antonvich represented Magma Copper Company and BHP Minerals in Tucson, Arizona and Houston, Texas, most recently as senior corporate counsel, advising these companies on international mineral acquisition and sales, commercial and general corporate affairs, operational and environmental issues related to mining and mineral processing activities, and complex litigation. From 1987 to 1995, he was in private practice in the Washington, D.C. area, after graduating from Georgetown University Law Center. Sarah R. Coffin was appointed executive vice president and president of performance products as of March 14, 2015. Before joining the company, she was employed by Seaman Corporation, where she held the position of vice president sales and marketing from May 31, 2004 to February 2005. From August 2002 to March 2003, Ms. Coffin Senior Vice President Global Sourcing, Human Resources and Information Technology in Noveon, Inc., was a global manufacturer of performance polymer systems and adhesives. From 1998 to 2002, she was group president specialty plastics and polymer additives, Senior Vice President and General Manager Performance Coatings with BF Goodrich Performance Materials Company/Noveon, Inc. She is a director of SPX Corporation. Nathan E. Fisher was appointed Executive Vice President – Global Procurement in June 2005. Fisher was director of global procurement and then vice president of global procurement from July 2003 to June 2005. From March 2003 to June 2003 he was director, Strategic Raw Materials. Before joining the company, from January 2000 to February 2003, Fisher was Global Chemicals Procurement Manager for Eastman Chemical Company. Kevin W. McGuire was appointed Executive Vice President – Chief Information Officer in June 2005. He has been head of information since November 2002, and was elected vice president in April 2004. Prior to joining the company, from July 2000 to June 2002, he was chief operating officer of Inc. From May 1997 to July 2000, he was senior director of information technology and process automation for Union Carbide Corporation. Richard L. Monty was appointed Executive Vice President – Environmental Health and Safety from 26 June 2015. Prior to joining the company, he was employed by Huntsman Corporation from July 1992 to January 2004 in various environmental and safety positions, and was eventually director of Global Environmental Health & Safety from 2001 to January 2004. 135 Table of Contents Raymond H. Glaser was appointed Vice President – Strategy and Development in August 2002. Prior to joining the company, he was director of business development for W.R. Grace & Co. from October 1999 to August 2002. Prior to that, he worked in several capacities from May 1996 to October 1999 for the Allied Performance Signals Polymers division, including as director of New Ventures. Nipesh Shah was appointed vice president – Six Sigma in November 2004. Prior to joining the company, Shah was vice president of Six Sigma Plus for Honeywell Security Group, from March 2002 to July 2004. From August 1999 to February 2002, he was six Sigma Plus Leader/Master Black Belt in Avery Dennison, Inc. George F. Knight, in 1997. From 1999 to 2001 he was deputy finance director of Borden Foods Corporation, a subsidiary of the company. In 2001 he was re-appointed vice president of the company and was appointed vice president – finance and treasurer of the company in July 2002. He was promoted to vice president in June 2005. Joshua J. Harris was elected director of the company on 12 May 1945. Harris is one of the leading partners in Apollo and has been an officer in certain associates of Apollo since 1990. Prior to that, Harris was a member of the merger and acquisition department of Drexel Burnham Lambert Incorporated. Harris is also director of Nalco Corporation, Allied Waste Industries, Inc., Quality Distribution Inc., Metals USA, Inc. and United Agri Products. Prior to the combinations, Harris was director of Resolution Performance Products LLC and Resolution Specialty Materials, Inc. He is a member of the Executive Committee and chairman of the compensation committee on the board. Scott M. Kleinman was elected director of the company on August 12, 2004. Kleinman is a partner at Apollo, where he has worked since February 1996. Prior to that time, Kleinman was employed by Smith Barney Inc. in its Investment Banking division. Prior to the combinations, Kleinman was also director of Resolution Performance Products LLC and Resolution Specialty Materials, Inc. He is a member of the audit and environmental and safety committees on the board. Robert V. Seminara was elected director of the company on 12 May 2015. Mr. Seminara is a partner in Apollo and has been an officer in certain affiliates of Apollo since January 2003. From June 1996 to January Seminara was an officer in the private equity investment group of Evercore Partners LLC, where he was named CEO. Seminara is also director of Covalence Specialty Materials and World Kitchen, Inc. He is a member of the Executive Committee and is chairman of the Audit Committee. Jordan C. Zaken was elected director of the company on 29 May 2015. Zaken is a partner at Apollo, where he has worked since 1999. Prior to that, Zaken was employed by Goldman, Sachs & Co. in its mergers and acquisitions department. He is a member of the board's compensation and environmental and safety committee. According to our articles of association, each director serves from the time of his election and qualification to the annual meeting of the shareholders next after the election, and until his successor shall have been elected and shall have qualified, unless such director previously dies, resigns or is removed by shareholders at any annual or special meeting or by the Board of Directors for cause. Officers are elected at the annual meeting of our Board of Directors or any other time that the Board decides to be appropriate by a majority of the Board and shall hold the office of his successor shall have been duly appointed and qualified (unless such officer previously dies, resigns or is removed by the Board (for which removal may take place with or without reason)). Compensation of directors We pay our non-employed directors an annual cash holder of $40,000, paid quarterly after each fiscal quarter of the service, and a fee of $1,000 per board meeting and each committee meeting attended, and 50% of such amounts for board meetings attended via teleconference. In addition, our non-employed directors have been given the opportunity to purchase membership entities in our parent, Hexion LLC. Our Audit Committee The audit committee recommends that the company be appointed as independent accountants to audit financial statements and perform services related to the audit, review the scope and results of the audit with the independent accountants, reviews with management and the independent accountants our annual operating results, assessing the adequacy of the internal accounting 136 Table of Contents procedures , assesses the effect of such procedures on the independence of the accountants and establishes guidelines for business values, ethics and employee relations. The audit committee consists of Messrs. Kleinman and Seminara, both of whom are the financial experts of the Audit Committee as such the term are defined in section 401 (h) of Rule S-K. Code of Conduct We have a code of Business Ethics that applies to all employees, including our CEO and senior financial managers. These standards are designed to deter wrongdoing and to promote the honest and ethical behavior of all employees. Excerpts from the Code of Conduct, which address the subject areas covered by the SEC rules, are posted on our website: www.hexion.com under Investor Relations - Corporate Governance. Any material change to, or waiver from, any provision of the Code of Conduct with respect to any senior executive or financial officer shall be posted on this website. Point 11. Lederkompensasjonskompensasjonstabell Følgende tabell fremsetter informasjon med hensyn til kompensasjon opptjent av vår administrerende direktør og våre fire nest mest kompenserte administrerende direktører som vi omtaler som våre navngitte ledere, for perioden som ble avsluttet 31. SUMMARY COMPENSATION TABLE ------ANNUAL COMPENSATION------- ----LONG-TERM COMPENSATION--- Awards Payouts Names and Principal Position Year Salary ($) Bonus ($) Other AnnualCompensation ($) RestrictedStockAward(s) ($) SecuritiesUnderlyingOptions/SARs (#) LTIPPayouts ($) All Other Compensation (2) ($) Craig O. MorrisonPresident and Chief Executive Officer 2005 656,533 941,500 — — — — 36,134 2004 659,230 774,030 — — 603,028 (5) — 3,098,294 2003 524,230 320,000 — — — — 39,173 William H. CarterExecutive Vice President and Chief Financial Officer 2005 543,803 505,411 — — — — 33,216 2004 567,277 407,161 — — 482,442 (5) — 3,016,446 2003 525,300 627,100 (3) — — 480,000 (4) — 56,584 Joseph P. BevilaquaExecutive Vice President 2005 338,688 211,764 — — — — 16,166 2004 347,899 230,296 — — 201,009 (5) — 1,548,216 2003 266,456 126,717 — — — — 15,719 Layle K. Smith (1)Executive Vice President 2005 233,333 342,291 — — — — — Sarah R. CoffinExecutive Vice President 2005 221,154 241,950 — — — — 44,726 (1) Mr. Smith became an executive of the registrant at the time of the Combinations. His compensation represents only compensation paid by the registrant since 1. (2) All other compensation includes matching company contributions to our retirement savings plan and our executive supplementary benefit plans. For 2004 these matching contributions were: Mr. Morrison $40,728; Mr. Carter $43,358 and Mr. Bevilaqua $19,434. For Messrs. Morrison and Bevilaqua also include payments of $3,057,566 and $1,528,782 respectively for the cancellation of their restricted shares at the time of the Borden transaction. Of these payments, Messrs received. Morrison and Bevilaqua cash payments of $1,557,566 and $1,028,781 respectively, and the balance of payments was credited in the form of deferred shares under the deferred compensation plan described below. In addition, for Mr. Carter, the amounts shown include one-time sales bonuses of $2,573,088, paid at the time of the Borden transaction. Some of messrs' sales bonuses. Carter was credited in the form of deferred shares under the deferred compensation plan. For Mr. Carter, the amount also includes the final installment ($400,000) of his retention bonus. The 2005 amount shown for Ms. Coffin includes $35,438 for relocation and relocation expenses. (3) Part of the bonus payment made in 2003 to Mr. $380,000, applies installments paid for a one-time retention bonus and was paid by affiliates funded by fees paid by Borden Chemical. (4) In connection with the Borden transaction, these options were settled in cash. (5) Represents options for purchasing Hexion LLC devices. 137 Table of Contents Option/SAR grant in the last financial year There were no options for shares in our common share given to named senior executives in the financial year 2005. Aggregated option/SAR exercises in the last financial year and FY-End Option/SAR values The table below provides information about options exercised in 2005 by each of our named senior executives and the value of their unexploded options on 31 May 2005. Name shares acquired on practice (#) Value Realized ($) Number of securities underlying unexercised options/SARs at the fiscal year's final value of unspondeged in-the-money options/SARs at fiscal year end ($) exercise(1) Unexercisable(1) Exercise (2) Unexercisable(2) C.O. Morrison — - 60,303,542,725,681,424 6,132,793 W.H. Carter — - 48,242,434,180 545,135 4,906,234 J.P. Bevilaqua — - 20.101 180.908 227.141 2.044.260 L.K. Smith — - 31,073,78,360,916,686,115 S.R. Coffin — —(1) Represents options for membership units in Hexion LLC. (2) There is no established trading market for Hexion LLC membership entities. The value used is the estimated market value as of December 12, 2005, which is determined by the Board's management incentive plan Hexion maintains a management incentive plan, which we refer to as the management incentive plan, in which participants earn cash bonus compensation based on the achievement of certain individual performance goals and Hexi's achievement of certain financial measures. Each participant's target price is based on a percentage of the base salary. According to our management incentive plan, our named managers and other senior managers' bonuses are paid out only on schedule if at least 90% of the specified target level for EBITDA (as this term is defined in the management incentive plan) is achieved. If the individual performance targets are met and at least 90% of the EBITDA target is achieved, bonuses for these senior managers vary from 66% of the target price in 2005 and 25% in 2006 to a maximum of 200% of the target price based on the actual EBITDA level achieved. On July 30, 2005, our Compensation Committee approved our long-term value creation rewards program (which we refer to as the rewards program) for certain managers and key managers. The rewards program has two components – a cash bonus component and a stock strengthening entitlement (SAR) component. Some participants will only receive SARs. The cash bonus bonus and SARs will vest in a third installment over a three-year period. A person who receives a cash bonus price under the rewards program will have a maximum total bonus option of 40% or 50% of the individual's current annualised pay rate. One hundred percent of the individual's cash bonus option will be paid if the individual remains continuously employed by us for the three-year earning period. Sars will be given with a base price equal to the price of a share of our common share in this offer. Persons granted sars will, at the end of the three-year earnings period, receive a cash payment for each earned SAR equal to the amount (if any) that the current market price of our common share (based on the average market price for the previous ten trading days) exceeds the base price of the SAR. Subject to final approval of the conditions for awards under the Rewards Program by the Committee, any portion of the cash bonus option and any SAR's who have not earned from the date a person's employment ends for any reason (including the individual's death or disability) are expected to be cancelled. Any portion of the cash bonus option and any sars earned from the date of the individual's employment will be paid at the end of the three-year accrual period (although payment of earned rates may be made earlier in the event of a person's death to his or her property), except that if the individual's employment is terminated by us for the reason (as defined in the Rewards Program) , the individual's entire cash bonus option and all his or her SARs, whether earned or not, will be immediately cancelled and no payment will be made. 138 Table of Contents Hexion LLC 2004 Deferred Compensation Plan Hexion LLC maintains the 2004 Deferred Compensation Plan, which we refer to as the Deferred Compensation Plan, for the benefit of certain of our former Borden Chemical executives. As described above, these managers were entitled to payment of either a sales bonus or revenue in relation to the canceled limited stock according to the Borden transaction. Individual deferred compensation accounts were created for these managers under the deferred compensation plan, and some of those payments were credited to those accounts in the form of deferred member units. The deferred compensation plan was assumed by us in connection with the combinations, and each deferred entity represents the right to receive a membership unit of Hexion LLC on the applicable payment date. At the plan's discretion, certain distributions of deferred units can be done in cash. Participants have no voting rights with respect to their deferred member units held under the plan. The deferred compensation plan is an unfunded plan. As of December 31, 2005, approximately 1.0 million deferred units were outstanding under the deferred compensation plan, all of which were earned. As of December 31, 2005, the accounts of our named managers have been credited with the number of deferred units as indicated by such manager's name below. Name Deferred Units Craig O. Morrison 241.211 William H. 192.969 Joseph P. Bevilaqua 80.404 Layle K. Smith — Sarah R. Coffin - Under the Deferred Compensation Plan, if Hexion pays dividends or other distribution on its common share, it will simultaneously pay a cash bonus to each executive holding deferred shares. Such a cash bonus amount with respect to such dividend payment will be equal to the relevant dividend per share paid on the ordinary share multiplied by the number of deferred shares with which such manager's deferred compensation account is credited as on the registration date of such dividend payment (or the payment date if there is no registration date). The number and type of deferred shares subject to awards granted under the deferred compensation plan will be subject to adjustment by reorganisations, mergers, combinations, recapitalisations, share splits, dividends or other similar events that change the number or type of outstanding shares, and extraordinary dividends or distributions of property to shareholders. The deferred compensation plan prohibits the allocation of deferred shares except in the event of a manager's death. Hexion LLC 2004 Stock Incentive Plan Hexion LLC maintains a stock incentive plan for the benefit of certain employees, which we refer to as the 2004 incentive plan. The 2004 incentive plan provides for the issuance of non-qualified stock options and rights to purchase equity shares in Hexion LLC. December 2005, 2,426,168 units were subject to awards granted under the plan. Awards granted under the 2004 incentive plan cannot be awarded or transferred, except in the event of the participant's death. The incentive plan for 2004 ends ten years after it was adopted, and then no allocations can be granted according to the plan. The number and type of securities issued under the 2004 incentive plan or subject to allocations given under the 2004 incentive plan, as well as the exercise or purchase prices of prices, will be subject to adjustment in the event of reorganizations, mergers, combinations, recapitalizations, share splits, dividends or other similar events that change the number or type of outstanding shares, and extraordinary dividends or distributions of property to shareholders. Employees participating in the incentive plan for 2004 receive options in accordance with the share incentive plan for 2004 in accordance with individual option agreements, whose terms and conditions will be substantially identical. Each agreement provides the issuance of two tranches of options to purchase units. Tranche A options will vest 20% on each of the first five anniversaries of the grant date or, to the extent not yet earned, on the first anniversary of the closure of a sale of Hexion. Following the sale of Hexion, when exercising each Tranche A Option, the option will receive the same consideration per share that apollo receives in connection with such sale. All Tranche B options will be made in whole or in part on the former to occur by the eighth the allocation date or date that occurs six months after the date on which a sale of Hexion is completed in case certain financial milestones are met. Following the sale of Hexion in which such financial milestones have been fulfilled, upon the exercise of each Tranche B option, the option will receive the same consideration per 139 table of contents as received by Apollo in

connection with such sale. Of the outstanding awards under the 2004 incentive plan as of December 31, 2005, 1,213,084 shares were subject to Tranche A Options and 1,213,084 shares were subject to Tranche B Options. In the event that we, or our successor, terminate a participant's employment without reason (or the participant resigns under certain circumstances) at any time within a certain period after the sale, the participant's options under the 2004 incentive plan may be earned and exercised from the date of termination. In connection with the 2004 incentive plan, a sale of Hexion generally means a sale of Hexion to one or more independent third parties, according to which such party or parties acquire capital holdings that have the right to choose a majority of our board of directors, or a sale of all or substantially all of our assets. Furthermore, at a realization event, we may, but are not obliged to, purchase each outstanding earned 2004 incentive plan option for an amount equal to the amount per share received in relation to the shares sold in such a transaction constitutes the realization event less exercise price of the option. In connection with the 2004 incentive plan, a realization event usually means a sale of Hexion as described above or a transaction or series of related transactions in which Apollo sells at least 50% of its interest in Hexion. Options given under the 2004 incentive plan generally have a period of ten years. Other projected plans In addition to the deferred compensation plan and the incentive plan for 2004, we maintain the following plans: Resolution Performance 2000 Stock Option Plan (which we refer to as the solution performance option plan), solution performance 2000 non-employee board members Option plan (which we refer to as the Resolution Performance Director plan), resolution performance-restricted unit plan (which we refer to as the resolution performance unit plan) and resolution special 2004 Stock Option Plan (which we refer to as the resolution speciality plan). These plans are managed by our board or compensation committee. The number and type of securities subject to options provided under these plans may be adjusted by reorganizations, mergers, combinations, recapitalizations, share splits, dividends or other similar events that change the number or type of outstanding shares, and extraordinary dividends or distributions of property to shareholders. No options granted under these plans may be awarded or transferred, except by Death. Each of the plans will end on the 10th anniversary of the adoption. Options given under any of these plans usually have an eight-year period. Each of the resolution special plan, solution performance plan and resolution Performance plan allows the committee to reduce the exercise price of outstanding stock options given according to that plan. No additional grants will be provided under these plans. At the time of the combinations, all assignments granted under these plans were exchanged for allocations of Hexion LLC units. The Solution Performance option plan allows non-qualified or incentive storage options to be granted according to the plan. As of December 31, 2005, 541,430 Hexion LLC units were subject to pricing given under the Resolution Performance Plan. The Resolution Performance director plan provides for the award of non-qualified stock options to non-employee directors of Resolution Performance Inc. As of December 31, 2005, 96,941 Hexion LLC units were subject to awards given under the Resolution Performance Director plan. The resolution speciality plan provides that only non-qualified stock options can be given according to the plan. As of December 31, 2005, 970,844 Hexion LLC units were subject to prices given under the Resolution Specialty Plan (of which 756,845 were subject to awards given to employees). Schlanger is the only participant in the solution performance unit. As of December 31, 2005, Schlanger had 191,276 storage units under the Dissolution Performance Unit Plan. These storage units will be distributed in a corresponding number of shares in Hexion LLC entities at the earliest by a termination of Mr. Schlanger's employment, a change in control event, or 1. Schlanger's rights under the resolution unit's plan are fully earned and non-pre-cowardly. The resolution performance unit plan is administered by the Board of Directors or the Compensation Committee. The number and type of securities will be subject to adjustment by reorganizations, mergers, combinations, recapitalizations, share splits, dividends or other similar events that change the number or type of outstanding shares, and extraordinary dividends or distributions of property to shareholders. The storage units cannot be assigned or transferred except in the event of Mr. Schlanger's death. Employment contracts, termination of employment and change control arrangements In August 2004, we entered into employment agreements with Craig O. Morrison, Joseph P. Bevilaqua and William H. Carter. In accordance with the terms of each of these employment agreements, the Executive Director has agreed not to disclose confidential information about our business. In addition, the executive has agreed not to request or hire any of our employees or ask any of our customers, suppliers, licensees or other business associates until one year after he ceases to receive payments under Furthermore, the executive has agreed not to engage in any business that competes with our business or 140 table of contents products anywhere in the world where we do business until after he ceases to receive payments under the agreement (or under certain circumstances the first anniversary of such a date). Mr. Morrison's employment agreement provides an annual base salary of $630,000 and a scorecard incentive plan bonus of 100% of base salary. The agreement also provides a perquisite payment in the amount of $40,000 annually, regular and regular health and retirement benefits and a grant of 603,028 stock options at an exercise price of $6.22 per share. Mr Morrison will be entitled to eighteen months' final salary based on his monthly base salary in the event of termination of us for reasons other than cause, death or disability or a termination of Mr Morrison for good reason. Mr. Bevilaqua's employment agreement provides an annual base salary of $325,000 and a scorecard incentive plan bonus of 60% of base salary. The agreement also provides a perquisite payment in the amount of $30,000 annually, regular and regular health and retirement benefits and a grant of 201,009 stock options at an exercise price of $6.22 per share. Mr. Bevilaqua will be entitled to a 12-month restraining order based on his monthly base salary in the event of termination of us for reasons other than cause, death or disability or a termination of Mr. Bevilaqua with good reason. Mr. Carter's employment agreement provides an annual base salary of $530,400 and a scorecard incentive plan bonus of 65% of the base salary. The agreement also provides a perquisite payment in the amount of $30,000 annually, regular and regular health and retirement benefits and a grant of 482,422 stock options at an exercise price of $6.22 per share. Mr. Carter will be entitled to 24 months of severance based on his monthly base salary in the event of termination of us for reasons other than cause, death or disability or a termination of Mr. Carter with good reason. Mr. Smith's employment agreement provides an annual base salary of $400,000 and a target bonus of 50% of the base salary. The agreement also provides for us to provide regular and regular health and pension benefits. Smith will be entitled to 12 months' final salary based on his annual salary upon termination of us for reasons other than cause, death or disability or in the event of Mr Smith leaving for good reason. Under the terms of the agreement, Smith has agreed not to disclose confidential information about our business. In addition, he has agreed not to request or hire any of our employees until after he ceases to receive payments under the agreement or to engage with any business that is in competition with our business until after he ceases to receive payments Agreement. Ms. Coffin's employment agreement provides a base salary of $250,000, a scorecard incentive plan bonus of 50% of base salary, participation in an equity purchase program, and four weeks paid vacation. The agreement also gives her the right to receive an executive perquisite payment of $25,000 and a signing bonus of $20,000, both of which are to be paid after the first 30 days of her employment. In addition, the agreement provides that Ms. Coffin will be eligible to participate in the company's regular health, pension and other benefit programs in addition to the executive relocation program. To assist with her move to Columbus, the company agreed to pay Ms. Coffin up to $50,000 (collected for taxes) on any shortcomings in the sale of her home against its appraiser value, the cost of less of two mortgage payments, if any, from July to September, and to provide 60 days of temporary housing. In June 2005, we entered into a employment agreement and a consultancy agreement with Schlanger, both of which were amended in January 2006. Under the terms of the amended employment agreement and the amended consulting agreement, Schlanger has agreed not to disclose confidential information about our business. In addition, he has agreed not to request or hire any of our employees until one year after he ceases to receive any payments under the agreement. Under Mr. Schlanger's consulting agreement, Mr. Schlanger has agreed not to request or hire any of our employees or request any of our clients until 24 months after he was terminated with the consultancy. Furthermore, according to the terms of the employment agreement, he has agreed not to engage in any business that is in competition with our business until after he ceases to receive any payments under the agreement (or under certain circumstances, the first anniversary of such a date). Schlanger's amended employment agreement will take effect from the conclusion of the combinations through 31 January 2018. The agreement also provides a target bonus with respect to the 2005 financial year of 75% of the base salary. The agreement gives Mr. Schlanger a quarterly bonus of $62,500 on each of July 1, 2005 and October 1, 2005 and to be provided with regular and regular health and retirement benefits. Both the target bonus and the quarterly bonus are conditional on Schlanger being employed by us on the current payment date. The agreement was awarded for 12 months of final termination based on his annual salary upon termination of us before December 31, 2005 for reasons other than for cause, death or disability or in the event of termination of Mr. Schlanger with good reason. 141 Table of Contents Schlanger's consulting agreement extends for the three-year period beginning January 1, 2017. the agreement allows Mr. Schlanger (i) to be paid a monthly consulting fee of $12,500, (ii) to be paid or refunded for his costs to maintain health insurance coverage for himself and his relatives similar to the coverage we provided during his employment, (iii) to be paid an amount equal to the normal fees paid to non-employee directors for the first quarter of 2006 , which he would have received if his employment agreement was not extended until March 31, 2006, and (iv) to continue to be eligible to vest in options during the consulting period that he would have during his work. Pension benefits The Employee Retirement Income Plan (ERIP) covers Us employees of the former Borden Chemical. This plan was amended as of January 1, 1987 to provide benefit credits equal to 3% of the income to the extent that such credit does not exceed the social security wage basis for the year plus 6% of eligible earnings in excess of the wage base. The proceeds include annual incentive rates paid for the time being, but exclude any long-term incentive rates. The benefits for the service through December 31, 1986 are based on the plan formula which is then in effect and has been converted to opening balances under the plan. Both opening balances and benefit credits receive interest credits to one year treasury bills until the participant starts receiving benefit payments. For the year 2005, the interest rate as set according to the planning language was 2.49%. Benefits vest after completion of five years of employment for employees employed on or after July 1, 1990. The decision pension plan, a defined benefit pension scheme, covers employees in previous resolution benefits. Benefits under this plan are determined by the formula as follows: (Final Average Pay (highest 36 of the last 120 months) multiplied by 1.6% multiplied by years of Service) minus a Social Security Offset. Compensation under the plan includes base, incentive bonus and shift premiums. Benefits west after 5 full years of service and benefits are calculated and shown to participants based on a single annuity. Employees in the former Resolution Special are covered by a deposit-based profit-sharing plan. This plan provides an advantage determined by a schedule that assesses years of service and age. Contributions range from benefit credits of 1% to 15% of income less than the social security wage base for the year plus an incremental 1% to 5% of income in excess of the wage base. Entries are made to the accounts of eligible participants annually. The pension benefit for some employees represented by collective agreements is calculated using a formula based on the number of years of credited service multiplied by fixed benefit multiplier amount established in the union contract. Some employees, such as Resolution Specialty employees, Resolution Performance, and employees outside the United States, are covered by other retirement plans. It expected annual benefits to be paid upon retirement at the age of 65 under the formulas of ERIP for Messrs. Morrison, Carter and Bevilaqua and Ms. Coffin, and of the Resolution Performance Pension Plan for Mr. Smith, regardless of the limits of benefits imposed under sections 415 and 401 (a) (17) of the Internal Revenue Code and recognizing supplementary pensions, as described below, are as follows for the named executive officers as of 2005: Craig O. Morrison, $108,803; William H. Carter, $127,953; Joseph P. Bevilaqua, $47,628; Layle K. Smith, $82,325; and Sarah R. Coffin, $17,047. In addition to the pension plans described above, all eligible full-time employees are offered participation in the Pension Savings Plan, which is a defined contribution plan. This plan allows employees of the former Borden Chemical to make contributions before tax from 1% to 15% of eligible earnings for highly compensated employees and 25% for all other employees. Employees of the former Borden Chemical are eligible to receive matching contributions from the company from 50% to 100% on contributions of up to 5% of eligible earnings. Employees of the former Borden Chemical who were hired before January 1, 1987 and have at least 120 months of service, can receive the company's matching contributions on contributions of up to 7% of eligible earnings. Additional company contributions can be made if we achieve specified annual financial measures established at the beginning of the planning year. Employees in the previous resolution benefit and the previous resolution special can contribute to the retirement savings plan from 1% to 60% and 1% to 10%, respectively. The company's contribution ranges from 3% to 6% after completion of the service in 1 and 5 years respectively. For some former Borden Chemical employees, the Executive Supplemental Pension Plan provides supplementary pension benefits above the limits imposed by sections 401(a) (17) and 415 of the Internal Revenue Code and for pension benefits with respect to any deferred compensation not assessed under ERIP, in each case using the same formula as ERIP. The 142 table of contents amounts of the expected annual benefits shown above for Messrs. Morrison, Carter and Bevilaqua and Ms. Coffin under ERIP include these supplementary pension benefits. The supplementary plan also provides an opportunity for employees whose compensation exceeds the limit under section 401(a) (17) of the Internal Revenue Code to voluntarily choose to defer compensation, and also allows other employees to choose a make-up benefit for the benefits limited under section 415 of the Internal Revenue Code with respect to defined contribution plans, in each case using the same formula as the retirement savings plan. The supplementary planning benefits are unfunded and paid out from our general assets. The company offers an ineligible deferred compensation plan for U.S. employees in the former Performance that is participants in the stock option plan for Resolution Performance Inc. . Participants can choose to defer up to 50% of base salary and 100% of bonus salary and stock option compensation. The company's obligations under this plan are unfunded; However, the participant's deferred compensation contributions are given to a rabbi's trust. The company must pay tax on compensation deferred by the participants; However, participants are required to reimburse the company for taxes when the funds are deducted from the plan. The compensation committee's interlocks and insider participation Messrs. Harris and Zaken are members of the compensation committee on the Board of Directors, and both are partners of Apollo Management L.P. 143 Table of Contents ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS The following table establishes information on beneficial ownership of Hexion common stock, as of March 1, 2006, and shows the number of shares and percent owned by: • each person known to benefit more than 5% of the usual holdings of Hexion; • each of Hexion's 2005 named executive officers; • each member of the Board of Directors of Hexion; and • all senior executives and members of the Board of Directors of Hexion as a group. Hexion LLC owned 100% of our outstanding common stock. Apollo, other investors and certain members of our management own their interests in our common share set out below through their ownership of Hexion LLC. Apollo has sole voting power and investment power with respect to the shares of the Company owned by Hexion LLC. Leon D. Black and John J. Hannan are directors and CEOs of entities that have dispositive voting or investment control over the other entities or funds associated with Apollo that control Hexion LLC. Although Messrs. Black and Hannan can each be considered a beneficial owner of shares in Hexion favorably owned by Apollo, each such person disclaims beneficial ownership of such shares. The amounts and percentages of common shares that are favorably owned are reported on the basis of the regulations of the SEC governing the determination of favorable ownership of securities. According to the rules of the SEC, a person is considered to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to get rid of or to lead the disposition of such security. A person is also considered to be a beneficial owner of securities with whom he or she has the right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be considered a beneficial owner of the same securities, and a person may be considered a beneficial owner of securities for which he has no financial interest. Unless otherwise stated in the footnotes below, each of the real owners, to our and investment power with respect to the specified shares in common shares. Name of Beneficial Owner Beneficial Ownershipof Equity Securities Shares Percent Apollo Management, L.P.(1) 75,154,789 91.0 % Robert Seminara (1) (2) 28,141 * Scott Kleinman (1) (2) 86,748 * Joshua Harris (1) (2) 86,748 * Jordan Zaken (1) (2) 28,141 * Marvin O. Schlanger (3) 433,169 * Craig O. Morrison (4) 60,303 * William H. Carter (5) 48,242 * Joseph P. Bevilaqua (6) 20,101 * Layle K. Smith (7) 110,373 * Sarah R. Coffin — * All Directors and Executive Officers as a group (18 persons) (8) 1,195,776 1.4 % (1) Represents the ownership interest in the Company indirectly attributable to Apollo through Apollo's ownership of Hexion LLC. The address of each of Apollo Investment Fund IV, L.P., Apollo Investment Fund V, L.P. and Apollo is c/o Apollo Management, L.P., 9 West 57th Street, New York, New York 10019. 144 Table of Contents (2) Although each of messrs. Harris, Kleinman, Zaken and Seminara may be considered a beneficial owner of Hexion entities beneficially owned by Apollo due to its status as a partner or senior partner of Apollo, each such person disclaims beneficial ownership of such entities. For Messrs. Harris and Kleinman, include 86,748 units that can be issued by the exercise of options given to each of Messrs. Harris and Kleinman who were earned from the date herein. For Messrs. Seminara and Zaken, include 28 141 units that can be issued by the exercise of options given to each Messrs. Seminara and Zaken that were earned as of the date herein. The address of Messrs. Harris, Kleinman, Zaken and Seminara are c/o Apollo Management, L.P., 9 West 57th Street, New York, New York 10019. (3) Includes 99,227 units that are subject to the option that can currently be exercised. Does not include 191,276 restricted storage units issued to Mr. Schlanger. The restricted inventory units represent a conditional right to receive 191,726 units of hexion upon occurrence of certain events. The address of Mr. Schlanger is c/o Hexion Specialty Chemicals, Inc., 180 East Broad Street, Columbus, Ohio 43215. (4) Includes 60,303 units subject to the option that can currently be exercised. Does not include 241,211 deferred units credited to Mr Morrison's account. The address of Mr. Morrison is c/o Hexion Specialty Chemicals, Inc., 180 East Broad Street, Columbus, Ohio 43215. (5) Includes 48,242 units that are subject to the option that can currently be exercised. Does not include 192,969 deferred devices credited to Mr. Carter's account. The address of Mr. Carter is c/o Hexion Specialty Chemicals, Inc., 180 East Broad Street, Columbus, Ohio 43215. (6) Includes 20,101 units that are subject to the option that can currently be exercised. Does not include 80,404 deferred units credited to Mr. Bevilqua's account. The address of Mr. Bevilaqua is c/o Hexion Specialty Chemicals, Inc., 180 East Broad Street, Columbus, Ohio 43215. (7) Includes 31,073 units subject to the option that can currently be exercised. Mr. Smith's address c / o Hexion Specialty Chemicals, Inc., 1600 Smith Street, Street, In 1999 there were 100 000 people who were booked on 100 (8) Including 609,005 units of common stock issuance upon exercise of options given to our directors and CEOs who were earned as of the date herein. Does not include 191,256 restricted shares issued to Mr. Schlanger under the Dissolution Performance Unit Plan and 686,209 deferred common storage units. SECTION 13. certain relationships and related transactions Combinations Transaction Agreement As of April 22, 2005, Borden Chemical entered into a transaction agreement with the affiliates of Resolution Performance and Resolution Specialty in accordance with which Borden Chemical agreed to combine with Performance Resolution and Resolution Specialty. Borden Chemical, Resolution Performance and Resolution Specialty are controlled by Apollo. On May 15, 2005, Borden Chemical entered into the Hexion Specialty Chemicals, Inc. Investor Rights Agreement 31. , resolution performance and resolution specialty, respectively, and Apollo, described below. Among other things, the Investor Rights Agreement provides the following: • limits the ability of certain security holders to transfer, assign, sell, gift, pledge, hypothesis or encumb, or otherwise dispose of, our common stock or of all or part of the voting power associated with the common stock, including excluding employee holders of common shares from selling shares within 12 months of a qualified public offering; • allows us to buy back all or part of our common stock held by our employees upon termination of their employment with us or our affiliates; • contains a provision that any meeting with our shareholders and in any action by the written consent of our shareholders, Hexion LLC will have the opportunity to match the shares of our employees-holders of common shares; and • allows these holders of our common stock to include their shares in a registration statement filed by us with respect to an offer of common stock (i) in connection with the exercise of any claim rights by Hexion LLC or (ii) in connection with the exercise of piggyback registration rights by Hexion LLC. 145 Table of Contents This piggyback right is subject to common austerity provisions, and moreover, the employees of our common stock will be subject to common lock-up provisions in connection with their participation in such an offer. The Investor Rights Agreement prohibits those of our employees or employees of our affiliates who are parties to the Agreement from requesting or hiring any of our other employees or requesting any of our customers, suppliers, rights holders or other business associates up to one year after they cease to receive payments from us or any of our affiliates. Furthermore, the investor rights agreement prohibits employees from competing with our business or products anywhere in the world where we do business until they stop receiving payments from us or our affiliates (or in certain cases until the first anniversary of the date when they cease receiving payments). The Investor Rights Agreement terminates with respect to all rights or obligations relating to our common share at the earliest to occur of our resolution, the sale of all or substantially all of our assets to any person or group other than Apollo and its affiliates and the transfer to any person or group other than Apollo and its affiliates of a number of shares of common shares that have the power to choose a majority of our Board of Directors. registration rights agreement 31. Under this agreement, we agreed to assume fees and expenses related to registration. The registration rights agreement also contains common provisions with respect to registration processes, signed offers and compensation and contribution rights. In May 2005, we entered into an amended and reworked management consultancy agreement with Apollo (The Amended Management Consultancy Agreement). The amended management consulting agreement allows Apollo and its affiliates to provide certain advisory services to us for a seven-year period, with an automatic extension of the term for a one-year period beginning on the fourth anniversary of the beginning of the agreement and at the end of each year afterwards, unless notice to the contrary is given by either party. The agreement, which later supplemented and amended, provides an annual fee equal to the largest of $3 million and 2% of adjusted EBITDA, as defined in the indents that govern our notes. In addition, we are also required to pay Apollo a transaction fee if we engage in a merger, acquisition or similar transaction unless we are unable to mutually agree on the terms of Apollo's involvement, in which case we will be able to retain another special adviser. We paid Apollo annual fees of $2.5 million in the first quarter of 2005 under the agreement. At the close of the Bakelite transaction in the second quarter of 2005, we paid a transaction fee equal to $3.7 million under the management's consulting agreement. Under the Management Agreement, we have also agreed to hold Apollo and its affiliates and their directors, executives and representatives of potential losses related to the services assessed under this Agreement. The amended management consultancy agreement provides that upon termination of the amended management consultancy agreement in connection with a sale of the company or an initial public offering, we will pay Apollo a lump sum equal to the net present value of the remaining annual management fees due to and payable by us at the end of the Amended Management Consulting Agreement set out using a current discount rate. In connection with the IPO, the amended management consulting agreement will terminate and we will pay Apollo a lump sum equal to $10 million. In addition, in connection with the IPO, we will pay Apollo $10 million for its structuring and advisory services related to the offerings. On May 31, 2005, Resolution Performance entered into an agreement to terminate administrative services with Apollo (Resolution Agreement for Performance Management). The Resolution Performance Management Termination Agreement provided that immediately prior to the termination of the combination, Apollo and resolution performance would be released from all obligations and obligations to provide administration services and payroll taxes under the Resolution Performance Management Agreement, dated as of 14 June 2015. In processing the termination, Resolution Performance Apollo paid a termination fee of $4.4 million. 146 Table of Contents decision Specialty – Termination of the Resolution Special Management Consulting Agreement The Special Management Agreement (as described below) was terminated in connection with the combinations. The amount required to terminate the Special Management Resolution Agreement was determined by discounting the remaining annual payments under the agreement from the termination date to the then current period of an annual discount rate equal to the resolution special's then interest rate on its revolving credit facility. Resolution Specialty paid Apollo a fee equal to $6.75 million on May 31, 2005, representing the amount required to end the Resolution Specialty Management Agreement with Apollo. The annual management fees to be paid to Apollo under each of management's consultancy agreements were determined through arms-long negotiations between each of the relevant companies and Apollo, and were based on the understanding of Apollo and each relevant company of fair value for such services, based in part on market conditions and which similarly localized companies have paid for similar services. Other transactions and events In 2001, Borden Chemical merged its foundry resins and coating companies with similar companies in Delta to form HAI, where Borden Chemical at the time of its formation had a 75% financial interest. The limited liability agreement for HAI gives Delta the right to purchase between 3% and 5% of additional financial interest in HAI each year begins 2004. In accordance with this provision, Delta in 2004 acquired an additional 5% interest, and a further 5% in March 2005, thereby reducing Borden Chemical's financial interest to 70% and 65% respectively as of December 31, 2004 and 2005. Delta's purchase price was based on the enterprise value of HAI determined by applying a contractually agreed multiple to EBITDA, as defined in the agreement. Delta is limited to obtaining a maximum of 15% of additional interest in HAI under this scheme. In the first quarter of 2005, the Company received a payment of $7.5 million on behalf of BHI Acquisition (the predecessor of Hexion LLC) from KKR for adjustments made to the purchase price of the Company in the Apollo transaction. Management Promissory Notes and Other Indebtedness In June 2001, Antonvich borrowed $100,000 from Resolution Performance to finance in part his purchase of 600 shares in Resolution Performance shares and $140,000 principal amount of Resolution Performance junior subordinate notes; and in August 2001, Jeffrey M. Nodland borrowed $250,000 from Resolution Performance to finance in part his purchase of 545.4545 shares of Resolution Performance shares and the $350,000 principal amount of Resolution Performance junior subordinate notes. Interest to be paid on each promissory note accrued at an annual rate of 10.75%. On December 31, 2005, 100% of the principal and accrued interest on both loans was paid out. Resolution specialty agreements in connection with resolution specialty transaction Apollo Management Agreement as of April 1, 2005, Resolution Specialty entered into a management consulting agreement with Apollo (Resolution Specialty Management Consulting Agreement). The Special Management Resolution Agreement provides for Apollo and its affiliates certain advisory services to resolution specials for a ten-year period, with an automatic extension of the period for a one-year period beginning on the fourth anniversary of the beginning of the agreement and at the end of each year thereafter, unless notice is given to the contrary. , provided, however, that the agreement shall automatically cease upon sale of the company or an initial public offer of Resolution Specialty's stock securities that meet certain criteria. Upon termination of the Resolution Special Management Consulting Agreement in connection with a sale of the Company or an initial public offering, The Resolution Specialty shall pay Apollo a lump sum equal to the net present value of the remaining annual management fees due to and payable by Resolution Specialty until the expiration of the Resolution Specialization Agreement provided by means of a applicable discount rate. The resolution specialties agreement provides a quarterly fee to Apollo equal to $250,000. In addition, Resolution Specialty is also required to pay Apollo a transaction fee if Resolution Specialty engages in a merger than the combinations), acquisitions or similar transactions unless Resolution Specialty and Apollo are unable to mutually agree on the terms of Apollo's involvement, in which case Resolution Specialty will be able to retain another special advisor. Under the 147 Table of Contents Resolution Special Management Consulting Agreement, Resolution Special has also agreed to hold Apollo and its affiliates and its directors, executives and representatives of potential losses related to the services assessed under this Agreement. This agreement was terminated in connection with the combinations. See -Combinations. SECTION 14. MAIN ACCOUNTING FEES AND SERVICES Prior to the combinations, Borden Chemical's main accounting firm Deloitte & Touche LLP (Deloitte) and Resolution Performance's main accounting firm were PricewaterhouseCoopers LLP (PwC). Since the date of the combinations, we have continued to use the services of both companies. The table below sets the fees billed by Deloitte and PwC to Borden Chemical, Resolution Performance, Resolution Specialty and the Company for 2005. With respect to 2004, the table includes fees billed by both companies to Borden Chemical and Resolution Performance for the full year, and fees billed to Resolution Specialty from August 2, 2004, the date of the acquisition. Years ended December 31, PWC Deloitte Total 2005 2004 2005 2004 2005 2004 Audit fees (a) $8 $9 $3 $2 $11 $11 Audit-related fees (b) 18 8 2 2 20 10 Tax fees (c) - 1 - 2 - 3 All other fees - Total fees $26 $18 $5 $6 $31 $24 (a) Audit fees. This category includes fees and expenses billed by PwC and Deloitte for audits of the Company's financial statements and for assessments of the financial statements included in the Company's quarterly reports on Form 10-Q. This category includes audit fees for engagements made at U.S. and international locations for the fiscal years ending March 31, 2015. This category includes fees and expenses billed by PwC and Deloitte for insurance and related services reasonably related to the audit or review of the Company's financial statements. This category includes due diligence fees and other services related to combinations, standalone audits of HAI and Borden Chemical Canada, Inc., other audit-related accounting and SEC reporting services, and audits of employee benefit plans. (c) Tax expenses. This category includes fees and expenses billed by PwC and Deloitte for national and international tax compliance and planning services and tax advice. Pre-approval policies and procedures. In accordance with guidelines and procedures adopted by the Audit Committee, all audit and non-audit services provided by our main accounting firms must be pre-approved by the audit committee or a designated member. All services that are of the designated member will be reported to the entire audit committee at the next Meet. Prior approval of audit and non-audit services can be granted at any time up to a year before the specified service starts. According to the guidelines, the Company is prohibited from using its main accounting firms for certain non-auditing services, whose list is based on the list of prohibited activities in the SEC's rules and regulations. In accordance with the pre-approval provisions set out above, the Audit Committee approved all services related to audit fees, audit-related fees and tax expenses described in (a) to (c) above. 148 Table of Contents Part IV ITEM 15. Exhibitions and accounting forms (1) Consolidated financial statements – Financial statements and related notes by Hexion Specialty Chemicals, Inc., and the report from independent registered public accounting firms are included in section 8 of this report. (2) Financial statement plans – Schedule II – Valuation and qualifying accounts and reserves. Also included are the financial statements and related notes of Hexion Specialty Chemicals Canada, Inc., for which its securities collateralize an issue that is registered, as defined by Rule 3-16 of Rule S-X under the Securities Act of 1933, and the report of independent registered public accounting firms. All other schedules are excluded because they are not current or not required, or because the required information is displayed in consolidated financial statements or in the notes there. (3) Exhibits required by SEC Regulation S-K – The following exhibits are filed hereby or incorporated hereby by reference: 2.1 ***† Transaction Agreement dated as of 22 May 2005 among Resolution Performance Holdings LLC, Resolution Performance Products Inc., Resolution Performance Products LLC, Resolution Specialty Holdings Materials LLC, Resolution Specialty Materials LLC, Lawter International Inc., BHI Acquisition Corp., BHI Merger Sub Inc., and Borden Chemical Materials Inc. 2.2† Modified and Reworked Master Sale Agreement (US) dated as of November 14, 2000 among Shell Oil Company, Resin Acquisition, LLC and Resolution Performance Products Inc. (incorporated by reference to Annex 2.1 to Resolution Performances Registration Statement on Form S-4 filed 16, 2001 (File No. 333-57170)) 2.3† Amended and Reworked SPNV Resins Sale Agreement dated as of November 14, 2000 between Shell Oil Company and Resolution Performance Products Inc. (incorporated by reference to Appendix 2.2 to resolution performance registration statement on Form S-4 filed March 16, 2001 (file no. 333-57170)) 2.4 Award and Assumption Agreement dated March 13, 2000 between Resolution Performance Products Inc. and Resolution Performance Products LLC (incorporated by reference to Annex 2.3 to Resolution Performance's Declaration of Registration on Form S-4 filed on May 16, 2015). LLC (incorporated by reference to Annex 2.4 to Resolution Performance's Registration Statement on Form S-4 filed March 16, 2001 (File No. 333-57170)) 3.1 Modified and reworked certificate for incorporation of Borden Chemical dated 11 January 2005 (incorporated by reference to Annex 3.5 to Amendment No.1 of Registrant Registration Statement on Form S-4 filed December 27, 2005 (File No. 333-122826)) 3.2 Amended and reworked by articles of association by Borden Chemical dated December 15, 2004 (incorporated by reference to Annex (3) (ii) to Form 10-K filed on March 24, 2005 (File No. 001-00071)) 4.1 Form of indentation between the registrant and the First National Bank of Chicago, as a trustee, dated as of January 15, 1983, which supplemented with the first supplementary indentation dated as of March 31, 1983, which supplemented with the first supplementary indentation dated as of March 31, 1983, which supplemented with the first supplementary indentation dated March 31, 1983, which supplemented with the first supplementary indentation dated as of March 31, 1983, which supplemented with the first supplementary indentation dated March 31, 1983, which supplemented with the first supplementary indentation dated as of March 31, 1983, which supplemented with the first supplementary indentation dated as of March 31, 1983, which supplemented with , 1986, and the second supplementary indentation, dated as of June 26, 1996, related to $200,000,000 8 3/8% Descending Fund Debentures due 2016, incorporated herein by reference from annex (4)(a) and (b) to change no. 4.2 Form of indentation between Borden Chemical and The Bank of New York, as a union representative, dated as of December 15, 1987, as supplementary indentation dated as of December 15, 1987, and the second supplementary Inden February 1993, and the third additional indentation dated as of December 26, 1987. , File No. 1996, Form 10-Q filed on August 14, 1996 (File No. 001-00071)), related to the following Debentures and Notes: (a) $200,000,000 9 1/5% Debentures due 2021. (b) The $250,000,000 7 7/8% Debentures due 2023. 4.3 Indentation dated August 12, 2004 among Borden U.S. Finance Corp. and Borden Nova Scotia Finance, ULC, as issuers, Borden Chemical, and Wilmington Trust Company, as trustee, related to: (a) $150 million Second-Priority Senior Secured Floating Rate Notes due 2010 and (b) $325 million 9% Second-Priority Senior Secured Notes due 2014 (incorporated by reference to Annex 4 (i) to Borden Chemical's Form 10-Q filed November 15, 2014 001-00071) 4.4 Indentation, dated as of November 14, 2000, among Resolution Performance Products LLC, Resolution Performance Capital Corporation and The Bank of New York, as bobeans, related to 13 1/2% Senior subordinate notes due 2010 (incorporated by reference to Annex 4.1 to Resolution Performance registration statement on form S-4 filed March 16 , 2001 (File No. 333-57170)) 4.5 Form of 13 1/2% Senior Subordinate Note Due 2010 (including as Appendix B to Exhibition 4.9) 4.6 Indents dated as per 2010 April 9, 2003 among Resolution Performance Products LLC , Resolution Performance Capital Corporation and Deutsche Bank Trust Company Americas, which manage, to 9 1/2% Senior Second Secured Notes Due 2010 (incorporated by reference to Annex 4.6 to Resolution Performance Registration Statement on Form S-4 filed on April 25, 2003 (File No. 333-104750)) 4.7 Form of 9 1/2% Senior Second Secured Note Due 2010 (included as Annex B to Annex 4.12) 4.8 Indentation dated as of December 22, 2003 among Resolution Performance Products LLC, Resolution Performance Capital Corporation and The Bank of New York, as a bobetaker, associated with 8% Senior Secured Notes due 2009 (incorporated by reference to exhibition 4.11 to resolution performance registration statement on Form S-4 filed on January 20, 2004 (File No. 333--- 112016)) 4.9 Form of exchange note for 8% Senior Secured Notes due 2009 (including as Annex B to Appendix 4.14) 4.10*** Indentation dated as of May 20 , 2005 among Borden Chemical US Finance Corp., Borden 2 Nova Scotia Finance, ULC, as issuers, Hexion Specialty Chemicals, Inc. and Wilmington Trust Company, as trustee, linked to $150 million Second-Priority Senior Secured Floating Rate Notes Due 2010 4.11 *** First supplementary indentation, dated as of May 31, 2005 among Resolution Performance Capital Corporation, Resolution Specialty Materials, LLC, Resolutions ' JV LLC, Lawter International, Inc., Resolution Specialty Materials Capital Corp., Borden Chemical International, Inc., Bakelite North America Holding Company, Bakelite Epoxy Polymers Corporation, Oilfield Technology Group, Inc. and Borden Services Company, as additional 150 table of contents Subsidiary Guarantors, Hexion Specialty Chemicals, Inc., Borden U.S. Finance Corp. and Borden Nova Scotia Finance, ULC and Wilmington Trust Company, as trustee of indenture dated as of August 12 , 2004 among Borden U.S. Finance Corp., Borden Nova Scotia Finance, ULC, as issuers, Borden Chemical and Wilmington Trust Company, as trustees related to: (a) $150 million Second-Priority Senior Secured Floating Rate Notes due 2010 and (b) $325 million in 2010 and (b) $325,000,000 and (b) $325.000 000.000 2010 2010 and (b) $325,000,000 2010 2010 and (b) $325,000,000 2010 and (b) $325,000,000 2010 2010 and (b) $325,000 9% Second Priority Senior Secured Notes Due 2014 4.12*** Supplementing into Jerk dated as of May 31, 2005 among Borden U.S. Finance Corp., Borden Nova Scotia Finance, ULC, the guarantors named therein and wilmington trust company, as trustee to Indenture dated May 20, 2005 among Borden Chemical US Finance Corp. and Borden 2 Nova Scotia Finance, ULC, as issuers, Hexion Specialty Chemicals, Inc. and Wilmington Trust Company, as trustee linked to $150 million Second-Priority Senior Secured Floating Rate Notes due 2010 4.13 *** First supplementary indentation dated as of May 31, 2005, among Resolution Performance Products Corp., Resolution Performance Capital Corporation, the guarantors named therein and The Bank of New York, as trustees, to indenture dated as of November 14, 2000, among Resolution Products LLC, Resolution Performance Capital Corporation and The Bank of New York, as trustees, related to 13 1/2% Senior Subordinate Notes Due 2010 4.14 *** First supplementary indenture dated as as as 31 mai 2005, blant Resolution Performance Products Corp., Resolution Performance Capital Corporation, garantistene som heter deri og Deutsche Bank Trust Company Americas, som trustee, til indenture datert per 9 april 2003, blant Resolution Performance Products LLC, Resolution Performance Capital Corporation og Deutsche Bank Trust Company Americas, som tillitsmann, knyttet til 9 1 / 2% Senior Second Secured Notes Due 2010 4.15 *** First Supplemental Indenture datert per mai 31, 2005, blant Resolution Performance Products Corp., Resolution Performance Capital Corporation, garantistene som heter deri og The Bank of New York, som tillitsmann, til indenturen datert per 22 desember 2003, blant resolusjon Performance Products LLC, Resolution Performance Capital Corporation og Bank of New York, som tillitsvalgt, knyttet til 8% Senior Secured Notes forfaller 2009 4.16*** Second Supplemental Indenture datert per mai 31 , 2005, blant Hexion Specialty Chemicals, Inc., Resolution Performance Capital Corporation, garantistene som heter deri og The Bank of New York, som tillitsvalgt, til indenture datert per november 14, 2000, som supplert, blant Resolution Performance Products LLC, Resolution Performance Capital Corporation og The Bank of New York, som tillitsvalgt, knyttet til 13 1 / 2% Senior underordnede notater forfaller 2010 4.17 *** Second Supplemental Indenture datert per 31 mai, 2005, blant Hexion Specialty Chemicals, Inc., Resolution Performance Capital Corporation, garantistene som heter deri og Deutsche Bank Trust Company Americas, som tillitsmann, til indenturen datert per 9. Resolution Performance Products LLC, Resolution Performance Capital Corporation og Deutsche Bank Trust Company Americas, som tillitsvalgt, knyttet

til 9 1 / 2% Senior Second Secured Notes Forfaller 2010 4.18 *** Second Supplemental Indenture datert per mai 31 , 2005, blant Hexion Specialty Chemicals, Inc., Resolution Performance Capital Corporation, garantistene som heter deri og The Bank of New York, desember 2003, som supplert, blant Resolution Performance Products LLC, Resolution Performance Capital Corporation og The Bank of New York, som tillitsvalgt, knyttet til 8% Senior Secured Notes forfaller 2009 4,19 Second Supplemental Indenture, datert per 23 desember 2005 blant Hexion CI Holding Company (Kina) LLC, LLC, som ytterligere datterselskap garantist, Hexion Specialty Chemicals, Inc., Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC og Wilmington Trust Company , som trustee, til indenture datert per august 12, 2004 blant Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, som utstedere, Hexion Specialty Chemicals , Inc. og Wilmington Trust Company, som tillitsmann knyttet til: (a) $ 150,000,000 Second-Priority Senior Secured Floating Rate Notes forfaller 2010 og (b) $ 325,000,000 9% Second-Priority Senior Sikrede notater forfaller 2014 (innlemmet ved henvisning til vedlegg 4.27 til Endring nr. 1 til av Registrant's Statement on Form S-4 filed on December 27, 2005 (File No. 333-122826)) 4.20 Second Supplemental Indenture, dated as of December 23, 2005 among Hexion CI Holding Company (China) LLC, as additional subsidiary Guarantor, Hexion Specialty Chemicals, Inc., Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC and Wilmington Trust Company, as Trustee, May 2005 among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, as issuers, Hexion Specialty Chemicals, Inc. and Wilmington Trust Company, as trustee relating to $150 million Second-Priority Senior Hedged Floating Interest Notes due 2010 (incorporated by reference to Annex 4.28 to Amendment No. 1 to of Registrant's registration statement on Form S-4 filed December 27, 2005 (file no. 333-122826)) 4.21 Third supplementary indentation December 2005 among Hexion Specialty Chemicals, Inc., HSC Capital Corporation, the guarantor named there and The Bank of New York, as trustee, to indenture dated as of November 14, 2000, as supplemented, among Hexion Specialty Chemicals, Inc., HSC Capital Corporation and The Bank of New York, as bobeans, associated with 131/2% Senior Subordinate Notes Due 2010 (incorporated by reference to Annex 1 4.29 to Amendment No. 1 to the Registrant's Registration Statement on Form S-4 filed December 27, 2005 (File No. 333-122826)) 4.22 Third Amendment in December 2005 among Hexion Specialty Chemicals , Inc., HSC Capital Corporation, the guarantor named deri and Deutsche Bank Trust Company Americas, as trustee, until indenture dated as of April 9, 2003, which supplemented, among Hexion Specialty Chemicals, Inc., HSC Capital Corporation and Deutsche Bank Trust Company Americas, as a trustee, related to 91/2% Senior Second Secured Notes Due 2010 (incorporated by reference to Annex 4.30 to Change No. 1 to of Registrant's Registration Statement on Form S-4 filed December 27, 2005 (File No. 333-122826)) 4.23 Third supplementary indentation, dated december 23, 2005 among Hexion Specialty Chemicals, Inc., HSC Capital Corporation , the guarantor named deri and The Bank of New York, as trustee, to indenture dated as of December 22, 2003, as supplemented, among Hexion Specialty Chemicals, Inc., HSC Capital Corporation and The Bank of New York , as a trustee, related to 8% Senior Secured Notes due 2009 (incorporated by reference to Annex 4.31 to Amendment No. 1 to of Registrant's registration statement on Form S-4 filed December 27, 2005 (File No. 333-122826)) 151 Table of Contents 10.1 Modified and reworked Executive Supplemental Pension Plan, dated as of January 1996 (incorporated by reference to Annex (10) (xiii) to Borden Chemicals december 31, 1998 Form 10-K filed on March 31, 1999 (File No. 001-00071)) 10.2 Advisory Directors Plan incorporated by reference to Annex 10 (viii) to Borden Chemical's 1989 Form 10-K Annual Report. 10.3 Prerequisite Policy (incorporated by reference to Annex (10) (xviii) to Borden Chemical's December 31, 2001 Form 10-K filed on March 29, 2002 (File No. 001-00071)) 10.4 Master Asset Conveyance and Facility Support Agreement, dated as of December 20, 2002, between Borden Chemical and Borden Chemicals Operating Limited Partnership (incorporated by reference to Annex (10) (xxvi) to Borden Chemicals december 31, 2002 Form 10-K filed on March 28, 2003 (File No. 001-00071)) 10.5 Environmental Servitude Agreement , dated as of December 20, 2002, between Borden Chemical and Borden Chemicals and Plastics Operating Limited Partnership (incorporated by reference to Exhibit (10) (xxvii) to Borden Chemical's December 31, 2002 Form 10-K filed on March 28, 2003 (File No. 001-00071)) 10.6 Stock Purchase Agreement dated as of July 5 , 2004 among BHI Investment, LLC, BW Holdings LLC, Borden Holdings, Inc. Borden Chemical, Inc. Craig O. Morrison and Joseph P. Bevilaqua (incorporated by reference to Exhibit (10) (i) to Borden Chemicals June 30, 2004 Form 10-Q filed On July 26, 2004 (File No. 001-00071)) 10.7 Amended and reworked Employment Agreement dated as of August 12, 2004 between the Company and Craig O. Morrison (incorporated by reference to Annex 10 (i) to Borden Chemical september 30 , 2004 Form 10-Q filed November 15 , 2004 (File No. 001-00071)) 10.8 Amended and reworked employment agreement dated august 12, 2004 between the company and Joseph P. Bevilaqua (incorporated by reference to Annex 10(ii) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071)) 10.9 Amended and Reworked Employment Agreement dated as of August 12, 2004 between the Company and William H. Carter. (incorporated by reference to Annex 10(iii) to Borden Chemical's September 30, 2004 Form 10-Q filed November 15, 2004 (File No. 001-00071)) 10.10 BHI Acquisition Corp. 2004 Deferred Compensation Plan (incorporated by reference to Annex 10 (iv) to Borden Chemical's September 30, 2004 Form 10-Q filed november 15, 2004 (File No. 001-00071)) 10.11 BHI Acquisition Corp. 2004 Stock Incentive Plan (incorporated by reference to Annex 10 (v) to Borden Chemical's September 30, 2004 Form 10-Q filed November 15, 2004 (File No. 001-00071)) 10.12 Investor Rights Agreement dated as of August 12, 2004 among BHI Acquisition Corp., and the Holders who are parties to these (incorporated by reference to Annex 10 (vi) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15 , 2004 (File No. 001-00071)) 10.13 Registration Rights Agreement dated as of August 12, 2004 among BHI Acquisition Corp., BHI Investment, LC and Management Holders party thereto (incorporated by reference to Annex 10 (vii) to Borden Chemicals September 30, 2004 Form 10-Q filed November 15, 2004 (File No. 001-00071)) 152 Table of Contents 10.14 Change no. Investments, LLC, Borden Holdings, Inc., Borden Chemical, Inc., Craig O. Morrison and Joseph P. Bevilaqua (incorporated by reference to Annex 10(viii) to Form 10-Q filed August 15, 2004 (File No. 001-00071)) 10.15 Management Consulting Agreement dated August 12, 2004 between Borden Chemical, Inc. and Apollo Management V, L.P. (incorporated by reference to Annex 10 (ix) to Borden Chemical's September 30 , 2004 Form 10-Q filed November 15, 2004 (File No. 001-00071)) 10.16 Modified and reworked loan and security agreement dated August 12, 2004 among the Company, Borden Chemical Canada, Inc. Borden Chemical UK Limited, Borden Chemical GB Limited, lenders named therein, Credit Suisse First Boston, as Agent, and Fleet Capital Corporation, as US Collateral Agent (incorporated by reference to Annex 10 (x) to Borden Chemical september 30 , 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071)). 10.17 Purchase agreement for shares dated 6. 2004 Form 10-Q filed November 15, 2004 (File No. 001-00071)) 10.18 Secured Promissory Note dated August 10, 2001 by Jeffrey M. Nodland to Resolution Performance Product LLC (incorporated by reference to Annex 10.2 to Resolution Performance September 30, 2004 Form 10–Q filed 14. 2001 Form 10–Q filed 14. , 2001 Form 10–Q filed 14.11.2001 (file. 333-57170)) 10.21 Pledge Agreement dated November 18, 2001 between S. Antonvich to Resolution Performance Products LLC (incorporated by reference to Annex 10.5 to Resolution Performance's September 30, 2001 Form 10-Q filed november 14, 2001 (File No. 333-57170)) 10.22 Intellectual Property Transfer and License Agreement and Contribution Agreement dated as of November 14, 2000 between Shell Oil Company and Performance Products LLC (incorporated by reference to Annex 10.13 to Resolution Performance Registration Statement on Form S-4 filed March 16, 2001 (File No. 333-57170)) 10.23 Intellectual Property Transfer and License Agreement and Contribution Agreement dated as of 14.11.2000 between Shell Internationale Research Maatschappij B.V. and Shell Epoxy Resins Research B.V .(incorporated by reference to Annex 10.14 to Resolution Performances Registration Statement on Form S-4 filed March 16, 2001 (File No. 333-57170)). 10.24 14, 2014 in New York City. November 2000 between Resolution Performance Products LLC and Apollo Management IV, L.P. (incorporated by reference to 153 Table of Contents Appendix 10.18 to Resolution Performance's Registration Statement on Form S-4 filed March 16, 2001 (File No. 333-57170)) 10.25 First Amended and Restated Deer Park Site Services, Utilities Materials and Facilities Agreement dated November 1, 2000 between Shell Chemical Company, by itself and as agent of Shell Oil Company, and Resolution Performance Products LLC (incorporated by reference to Annex 10.19 to resolution performance registration statement on Form S-4 filed March 1 6, 2 333-57170)) 10.26 First modified and reworked Norco Site Services, Utilities, Materials and Construction Agreement dated November 1, 2000 between Shell Chemical Company, by itself and as agent of Shell Oil Company , and Resolution Performance Products LLC (incorporated by reference to Annex 10.20 to resolution performance registration statement on Form S-4 filed March 16, 2001 (File No. 333-57170)) 10.27 First modified and reworked Pernis Site Services, Tools, Materials and Facilities Agreement dated 1 November 2000 between Resolution Europe B.V. (f/k/a Resolution Netherlands B.V., f/k/a Shell Epoxy Resins Nederland B.V.) and Shell Netherlands Rafaderij B.V. (incorporated by reference to Annex 10.21 to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170)) 10.28 First modified and reworked Pernis Site Services, Utilities, Materials and Facilities Agreement dated November 1, 2000 between Resolution Europe B.V. (f/ k / a Resolution Netherlands B.V. , f/k/a Shell Epoxy resin Netherlands B.V.) and Shell Netherlands Chemie B.V. (incorporated by reference to Annex 10.22 to Resolution Performance Registration Statement on Form S-4 filed March 16 , 2001 (File No. 333-57170)) 10.29 Deer Park Ground Lease and Award of Easements dated as of November 1, 2000 between Shell Oil Company and Performance Resolution Products LLC (incorporated by reference to Annex 10.23 to Resolution Performance Registration Statement on Form S-4 filed March 16, 2001 (File No. 333-57170)) 10.30 Norco Ground Lease and Grant of Servitudes dated November 1, 2000 between Shell Oil Company and Resolution Products LLC (incorporated by reference to Annex 10.1 16. (File no. 333-57170)) 10.31 Modified and reworked agreement on sub – lease (Pernis) dated as of November 1 , 2000 between Resolution Europe B.V. (f/k/a Resolution Netherlands B.V., f/k/a Shell Epoxy Resins Nederland B.V.) and Shell Netherlands Refineryderij B.V. (incorporated by reference to Annex 10.25 to Resolution Performance's Registration Statement on Form S-4 filed March 16 , 2001 (File No. 333-57170)) 10.32 Resolution Performance Products Inc. 2000 Stock Option Plan (incorporated by to Annex 10.26 to resolution performance registration statement on Form S-4 filed on March 16, 2001 (File No. 333-57170)) 10.33 Resolution Performance Products Inc. 2000 Non-Employee Directors Stock Option Plan (incorporated by reference to Annex 10.27 to Resolution Performance Registration Statement on Form S-4 filed March 16, 2001 (File No. 333-57170)) 10.34 Modified and Reworked Resolution Performance Products, Inc. Limited Unit Plan (incorporated by reference to Annex 10.34 to Amendment No.5 of the Registration Statement on Form S-1 filed on September 19, 2005 (File No. 333-124287)) 10.35 Change No. 1 dated March 15, 2002 to the Management Consulting Agreement dated November 14, 2000 between Resolution Performance Products LLC, a Delaware 154 Table of Contents Company, and Apollo Management IV, L.P., a Delaware limited partnership (incorporated by reference to Annex 10.1 to Resolution Performance march 31, 2002 Form 10-Q filed May 8, 2002 (File No. 333-57170)) 10.36 Change No. 2 dated as of January 1, 2003 to management consulting agreement dated 14 November 2000, with modifications, between Resolution Performance Products LLC, a Delaware limited company, and Apollo Management IV, L.P., a Delaware limited partnership (incorporated by reference to Annex No. 10.43 to Resolution Performance's Amendment No. 1 to Registration Statement on Form S-4 filed February 12 , 2003 (File No. 333-57170)) 10.37 Amendment No. , between Resolution Performance Products LLC and Apollo Management IV, L.P., a Delaware limited partnership (incorporated by reference to Annex No. 10.50 to Resolution Performance's December 31, 2002 Form 10-K filed March 25, 2003 (File No. 333-57170)) 10.38 Employment Agreement dated as of May 1003 (File No. 333-57170)) 10.38 Employment Agreement dated as of May 1000, 2004 by and between Resolution Performance Products LLC and David S. Graziosi (incorporated by reference to Annex 10.3 to Resolution Performance's Report on Form 10-Q for the quarter ended December 31, 2004 (archive no. 333-571701)) 10.39 Letter agreement dated December 3, 2004 between Borden Chemical, Inc. and Apollo Management V, L.P. (incorporated by reference to Annex 10.10 to The Borden Chemical Registration Statement on Form S-4 filed February 14, 2005 (File No. 333-1228626)) 10.40 Form of ineligible share option agreement between BHI Acquisition Corp. and certain options (incorporated by reference to Annex 10.12 to Borden Chemical's registration statement on Form S-4 filed on 14 May 2015). 2005 (File No. 333-1228626)) 10.41 Working conditions dated 9, 2005 (File no. 001-00071)) 10.42*** Credit agreement dated as of 2 January 2005. various lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, and Bear Stearns Corporate Lending Inc., as Syndication Agent. 10.43 Credit agreement dated as of January 24, 2005 among Resolution Performance Products Inc., Resolution Performance Products LLC, Resolution Performance Capital Corporation, Resolution Europe B.V., the various lenders there, General Electric Capital Corporation, as a U.S. lender, initial U.S. L/C Issuer, Collateral Agent and as u.S. agent, and GE Leveraged Loans Limited, as Netherlands Agent, Netherlands L/C Issuer, Netherlands Security Trustee and a Netherlands Lender (incorporated by reference to Annex 10.1 to Resolution Performance current report on Form 8-K dated January 24, 2005 (File No. 333-571701)) 10.5 January 2005 Resolution Performance Products Inc., Resolution Performance Capital Corporation and General Electric Capital Corporation, on behalf of themselves and U.S. lenders (incorporated by reference to Annex 10.2 to Resolution Performance's current report on Form 8-K dated May 24, 2015). , 2005 (file no. 333-571701)) 10.45 Second Modified and Reworked Security Agreement dated as of 24 March 2005. 2005, by and among Resolution Performance Products Inc., Resolution Performance Products LLC, Resolution Performance Capital Corporation and General Electric Capital Corporation, on behalf of themselves and secured creditors (incorporated by reference to Annex 10.3 to 155 Table of Contents Resolution Performance current report on Form 8-K dated January 24, 2005 (File No. 333-571701)) 10.46 Second Modified and Reworked Collateral Agreement dated as of January 24, 2005, by and among Resolution Performance Products Inc., Resolution Performance Products LLC, Resolution Performance Capital Corporation and General Electric Capital Corporation as Collateral Agent, on behalf of itself a secured creditors (incorporated by reference to Annex 10.4 to Resolution Performance's current report on Form 8-K dated January 24 , 2005 (File No. 333-571701)) 10.47 Amended and reworked Intercreditor Agreement dated as of 24. and Bank of New York, as the trustee for its benefit and the benefit of the holders from time to time of the additional senior secured notes, and recognized and agreed upon by the US credit parties from time to time (incorporated by reference to Annex 10.5 to Resolution Performances current report on Form 8-K dated January 24, 2005 (File No. 333-5717 1 0.48 First act of collateral of shares in the capital of Resolution Holdings B.V. by Resolution Performance Products LLC in favor of General Electric Capital Corporation (incorporated by reference to Annex 10.6 to Resolution Performance current report on Form 8-K dated January 24, 2005 No. 333-571701)) 10.49 Second Act of Collateral of shares in the capital of Resolution Holdings B.V. of Resolution Performance Products LLC in favor of General Electric Capital Corporation (incorporated by reference to Annex 10.7 to resolution performance current report on Form 8-K dated January 24, 2005 (File No. 333-571701)) 10.50 Indemnity Agreement dated As of March 29, 2005, among Resolution Performance Products Inc. , Resolution Performance Products LLC and the indemnity party, Carl S. Stutts (incorporated by reference to Annex 10.73 to resolution performance annual report on Form 10-K for the year ended December 31, 2004 (File No. 333-571701)) 10.51*** Resolution Specialty Materials Inc. 2004 Stock Option Plan 10.52*** Form of ineligible share option agreement for resolution Specialty Materials Inc. 2004 Stock Option Plan 10.53*** Form of ineligible share option agreement for Resolution Performance Products Inc. 2000 Stock Option Plan 10.54*** Form of Ineligible Share Option Agreement for Resolution Performance Products Inc. 2000 Non-employee director Share option plan 10.55 Terms of employment dated 21 March 2000. 2005 between Sarah R. Coffin and the Company (incorporated by reference to annex (10) to Borden Chemical's Current Report on Form 8-K dated February 14, 2005 (File No. 001-00071)) 10.56 Employment Agreement dated December 14, 2004 between Resolution Specialty Materials LLC and Jeffrey M. Nodland. (incorporated by reference to Annex 10.56 to Amendment No. 6 of Registrant's Declaration of Registration on Form S-1 filed on November 21, 2005 (File No. 333-124287))] 10.57 Terms of employment dated 31 December 2003 between C.H. Morton and the Company (incorporated by reference to Annex 10 (x) to Borden Chemical's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-00071)) 156 Table of Contents 10.58*** Employment Agreement dated as of June 1, 2005 between Hexion Specialty Chemicals, Inc. and Marvin O. Schlanger 10.59*** Consulting Agreement dated as of June 1, 2005 between Hexion Specialty Chemicals, Inc and Marvin O. Schlanger 10.60*** Employment Agreement dated as of 1 2005 between Hexion Specialty Chemicals, Inc. and Layle K. Smith 10.61*** Employment Agreement dated as of June 1, 2005 between Hexion Specialty Chemicals, Inc. and S. Antonvich 10.62*** Amended and Reworked Investor Rights Agreement dated as of May 31, 2005 between Hexion LLC, Hexion Specialty Chemicals, Inc. and holders who are party to 10.63*** Registration Rights Agreement dated as of March 31, 2005 between Hexion Specialty Chemicals, Inc. and Hexion LLC 10.64*** Management Consulting Agreement dated as of May 31, 2005 between Resolution Specialty Materials LLC and Apollo Management IV, L.P. 10.65*** Modified and reworked consulting agreement dated as of May 31, 2005 between Borden Chemical , Inc. and Apollo Management V, L.P. 10.66*** Management Services Termination Agreement dated as of May 31, 2005 Ytelsesprodukter for oppløsning, LLC og Apollo Management IV, L.P. 10.67*† Credit Agreement datert per 31 mai 2005 blant Hexion LLC, Hexion Specialty Chemicals, Inc., Borden Chemical Canada, Inc., Resolution Europe B.V., Borden Chemical GB Limited, Borden Chemical UK Limited, Bakelite AG, de ulike långiverne part dertil, JPMorgan Chase Bank, N.A., som Administrative Agent, Citicorp North America, Inc., som Syndication Agent, Credit Suisse, som Documentation Agent, og J.P. Morgan Securities Inc., Citigroup Global Markets Inc. og Credit Suisse, som Joint Lead Arrangers og Joint Bookrunners 10.68*** Second Amended and Restated Inter mai 2005 blant JPMorgan Chase Bank, N.A., som Intercreditor Agent, Wilmington Trust Company, som New Trustee, Hexion LLC, Hexion Specialty Chemicals, Inc. , og hvert datterselskap av Hexion Specialty Chemicals , Inc. part dertil 10.69*** Second Amended and Restated Intercreditor Agreement datert per 31. 2005 blant JPMorgan Chase Bank, N.A., som Collateral Agent, og anerkjent og akseptert av Hexion LLC, Hexion Specialty Chemicals, Inc., og hvert datterselskap av Hexion Specialty Chemicals, Inc. part dertil 10.70 *** Registreringsrettighetsavtale datert per 20 mai 2005, blant Hexion Specialty Chemicals, Inc. og Credit Suisse First Boston LLC, LLC Goldman, Sachs & Co., Lehman Brothers, Inc., Lehman Commercial Paper Inc. og J.P. Morgan Securities Inc., som innledende kjøpere 10.71*** Registreringsrettighetsavtale datert per 20. , and Credit Suisse First Boston LLC, J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated, as Initial Purchasers 10.72 Form Offer Letter (incorporated by reference to Exhibit 10 to Borden Chemical's March 31, 2004 10-Q filed on May 13, 2004 (File No. 001-00071)) 157 Table of Contents 10.73 Borden Chemical, Inc. 2005 Management Incentive Plan (incorporated by reference to Exhibit 10(v).1 to Borden Chemical's December 31, 2004 10-K/A filed on August 23, 2005 (File No. 001-00071)) 10.74 Long-Term Value Creation Reward Program (incorporated by reference to Exhibit 10.76 to Amendment No. 5 of the Registrant's Registration Statement on Form S-1 filed on September 19, 2005 (File No. 333-124287)) 12.1 Statement regarding computation of ratios 21.1 List of Subsidiaries of the registrant 31.1 Rule 13a-14 Certifications (a) Certificate of the Chief Executive Officer (b) Certificate of the Chief Financial Officer 32.1 Section 1350 Certifications *** Incorporated by reference to Amendment No. 3 of the Registrant's Registration Statement på skjema S-1 arkivert den 15 juli 2005 (File No. 333-124287) † Tidsplaner og utstillinger til disse avtalene utelates i henhold til punkt 601 (b) (2) av forordning S-K. Selskapet samtykker i å gi ekstra til SEC, på forespørsel, en kopi av enhver utelatt tidsplan eller utstilling. 158 Innholdsfortegnelse Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly led to this report being signed on behalf of the undersigned, and thus duly authorized. HEXION SPECIALTY CHEMICALS, INC. By /s/ William H. Carter William H. Carter Executive Vice President and Chief Financial Officer Date: March 16, 2006 In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities specified. Name Title Signature Date Craig O. Morrison Director, President and Ceo (Principal Executive Officer) /s/ Craig O. Morrison 3/16/2006 William H. Carter Director, Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer) / s / William H. Carter 3/16/2006 Joshua J. Harris Director / s / Joshua J. Harris 3/16/2006 Scott M. Kleinman Director / s / Scott M. Kleinman 3/16/2006 Robert V. Seminara Director /s/ Robert V. Seminara 3/16/2006 Jordan C. Zaken Director /s/ Jordan C. Zaken 3/16 /2006 Marvin O. Schlanger Director /s/ Marvin O. Schlanger 3/16/2006 159 Table of Contents CONSOLIDATED OPERATING STATEMENTS HEXION SPECIALTY CHEMICALS CANADA, INC. OG DATTERSELSKAPER Året endteDesember 31, 2005 2004 2003 (I millioner) Nettosalg $ 1234 $ 637 $ 533 Salgskostnad 1047 550 459 Bruttofortjeneste 187 87 74 Salg , generelle og administrative kostnader 99 48 40 Transaksjonsrelaterte kostnader (se note 5) 9 20 — Forretningsjustering og nedskrivninger (Se note 4) 11 3 (4) Andre driftskostnader (inntekt) — (2) (2) Driftsinntekter 68 18 40 Rentekostnad 6 2 2 Tilknyttede rentekostnader (se note 9) 40 12 3 Andre ikke-driftskostnader 7 2 - Resultat før skatt 15 2 35 Skattekostnad (fordel) 5 23 (1) Nettoinntekt (tap) $ 10 $ (21) $ 36 Omfattende (tap) inntekt $ (33) $ (27) $ 59 Se merknader til konsoliderte regnskap 1 Innholdsfortegnelse KONSOLIDERTE BALANSER HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES DECEMBER 31, 2005 31.2004 (IN MILLIONS) ASSETS Current Assets Cash and equivalents $112 $58 Trade receivables (less deduction for questionable accounts of $10 in 2005 and $ 3 in 2004) 219 105 Inventories : Finished and processed goods 66 17 Raw materials and supplies 50 22 Other current assets 16 4 463 206 Other assets 23 20 Property, plant and equipment Country 19 7 Buildings 57 33 Machinery and equipment 414 295 490 335 Less accumulated depreciation (159) (138) 33 1 197 Goodwill 68 10 Other Intangible Assets Assets, net 68 5 Total assets $953 $438 See notes to the consolidated financial statements CONSOLIDATED BALANCE SHEETS HEXION SPECIALTY CHEMICALS CANADA, IN 2009, IT WAS AND SUBSIDIARIES DECEMBER 31, 2005 31.2004 (IN MILLION, EXCLUDING SHARE DATA) DEBT AND SHAREHOLDER EQUITY (DEFICIT) Short-term liabilities Accounts and drafts are paid $139 $90 Suppliers to associated companies (See Note 5) 10 5 Debt is paid within year 36 8 Associated interest (see note 9) — 11 Business adjustment reserves (See note 4) 21 4 Other current liabilities 52 20 258 138 Other liabilities Long-term liabilities 21 7 Associated long-term liabilities (See note 20 20 258 138 Other liabilities 9) 455 285 Associated royalties (See note 5) 7 8 Deferred income tax 42 25 Long-term pension liabilities 106 1 Other long-term liabilities 15 6 646 332 Liabilities and assumptions (see note 8 , 10 and 11) Shareholder's equity (deficit) Common shares - no nominal value; authorized shares unlimited, issued and outstanding 489,866 shares as of March 31, 2015 2005 and 2004 3 3 Capital paid in 118 2 Accumulated other comprehensive loss (100) (57) Retained earnings 28 20 49 (32) Total liabilities and shareholder equity (deficit) $953 $438 See notes to the consolidated financial statements CONSOLIDATED FINANCIAL STATEMENTS OF CASH FLOWS HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES The year ended 31st, 2005 2004 2003 (In millions) Cash flows from (used in) Operating activities Net income (loss) $ 10 $ (21) $ 36 Adjustments to reconcile net income (loss) to net cash flow from (used in) operating activities Allocations of the company's indirect costs, net (See note 5) 17 34 13 Deferred tax provision (1) 16 1 Depreciation and amortisation 33 17 16 Restructuring and write-downs 11 3 (4) Depreciation deferred financing fees 2 — — Other non-cash adjustments (2) 2 1 Net change in assets and Liabilities : Receivables 4 (8) (6) Inventories 35 (10) 5 Accounting and draft payable (14) 31 4 Tax 1 (9) (16) Other assets 1 1 2 Other liabilities (9) — (16) 98 56 36 Cash flows (used in) from capital expenditures (25) (18) (16) Acquisition of businesses, net cash and liabilities acquired (see note 3) (248) — (11) Liquid dividend from investment — — 1 Proceeds from sale of assets — 8 7 (273) (10) (19) Cash flows from (used in) Financing activities Net short-term debt loans (4) 2 2 Loans of long-term debt 5 — 9 Repayment of long-term debt (15) (2) (1) Associated borrowings, net 245 (13) (15) Dividends paid — (1) (2) 231 (14) (7) Effect of exchange rates on cash and equivalents (2) 3 2 Increase in cash and 2 equivalents $54 $35 $12 Cash and equivalents at the beginning of the year 58 23 11 Cash and equivalents at end of year $112 $58 $23 Supplementary disclosures of Cash Flow Information Cash Paid : Interest, net $56 $2 $1 Income tax, net 9 17 15 Non-cash activity: Affiliate note issued to buy businesses, net note to be paid to the parent company acquired at $38 (See note 1) - 222 — Distribution to parent - acquisition of subsidiaries previously combined (See note 1) — (222) — Capital contribution from the mother (See note 14) 95 1 52 See notes to the consolidated financial statements CONSOLIDATED STATEMENTS OF SHAREHOLDERS (DEFICIT) EQUITY HEXION SPECIALTY CHEMICALS CANADA Inc. And (a) RetainedEarnings Total (In millions) Balance Sheet, December 31, 2002 $3 $31 $(74) $101 $61 Net Income – 36 36 Translation Adjustments – - 24 - 24 Minimum Pension Liability Adjustment, net tax — — (1) — (1) Comprehensive income — — 59 Maternal capital contributions (see note 14) — 52 — — 52 Dividends paid — (2) (2) Totals of indirect costs — 13 — — 13 Balance sheet, December 31, 2003 3 96 (51) 135 183 Net loss — — — (21) (21) Translation adjustments — — (6) — (6) Comprehensive loss — (27) Distribution to parent – acquisition of subsidiaries previously combined (see note 1) — (129) — (93) (222) Maternal capital contributions (see note 14) — 1 — — 1 Common dividend paid — — — (1) (1) Totals of company indirect costs — 34 — 34 Balance Sheet, 31. 2004 3 2 (57) 20 (32) Net income — 10 10 Translation adjustments — — (42) — (42) Minimum pension liability, net tax — — (1) — (1) Comprehensive loss — (33) Maternal capital contributions (see notes 9 and 14) — 99 — — 99 Indirect cost grants (see note 5) — 17 — — 17 Other — — — (2) (2) Balance , December 31, 2005 $3$118$ (100) $28 $49 (a) Accumulated other comprehensive loss on December 31, 2005 represents $97 of net foreign currency translation loss and a $3 minimum pension liability adjustment. December 2004 represents $55 of net currency translation losses and a $2 minimum pension liability adjustment. See Notes to the consolidated financial statements 5 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements (In millions) 1. Background and basis for presentation Hexion Specialty Chemicals Canada, Inc. (Hexion Canada or company) is engaged in the production and distribution of urea, phenolic and epoxy-based resins, mainly used in forest and industrial products, casting compounds and other specialties and industrial chemicals worldwide. As of December 31, 2005, the company's operations included 31 production facilities in Canada, Brazil, Australia, Malaysia, Korea, Germany, Italy, Spain, Finland, the Czech Republic, the Netherlands and the United Kingdom (United Kingdom). Hexion Canada, formerly known as Borden Chemical Canada, Inc. (BCCI) is 100% owned by Hexion Specialty Chemicals, Inc. (Hexion), formerly known as Borden Chemical, Inc. (BCI). In May 2005, Hexion was formed after the combination of certain Apollo Management, L.P. (Apollo) controlled companies (The Combination). On April 25, 2005, Hexion Canada, through its wholly owned subsidiary, National Borden Chemical Germany GmbH (NBCG), completed the acquisition of Bakelite Aktiengesellschaft (Bakelite). See note 3. 12 August 2004, at the same time as the acquisition (Acquisition) of BCI by a subsidiary of Apollo, the company acquired most of Hexion's foreign for a note to be paid by CDN$343 (see note 9). Since the reorganization was between related parties, and Hexion chose not to apply push-down accounting related to the acquisition, Hexion is Canada's basis in the acquired subsidiaries Hexion's historical cost base. As a result, Hexion Canada's net purchase price on the assets acquired at $222 in the shareholder's equity (deficit) is reflected as a distribution to the parent company. The acquisition was partly financed through private debt offerings issued by two wholly owned subsidiaries of Hexion and is guaranteed by Hexion and some of its domestic subsidiaries (Guarantors). The private debt offers and associated guarantees are senior obligations secured by a second priority lien (subject to certain exemptions and permitted liens) on certain of the guarantor's existing and future domestic assets, including the holdings of Hexion Canada. In accordance with Rule 3-16 of Rule S-X under the Securities Act of 1933, Hexion is required to submit its financial statements to Hexion Canada with the U.S. Securities and Exchange Commission as if the Company were a registrant. The financial statements of the Company, which have been consolidated from the date of acquisition, are presented on a total basis for the periods prior to the acquisition and the related reorganisation. Hexion incurs various costs, including corporate and administrative costs, on behalf of the Company; distribution of these costs is reflected in these financial statements. See note 5. 2. Summary of significant accounting principles Significant accounting principles followed by the Company, as summarized below, are in accordance with accounting principles that are widely accepted in the United States. Principles for consolidation – The consolidated financial statements include the financial statements of Hexion Canada and its majority-owned subsidiaries, all of which are under the joint control and management of Hexion, and which have no significant participation rights held by minority shareholders. Intercompany transactions and balances have been eliminated. The Company has registered a minority interest in equity 6 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements - (Still) (IN millions) of interest in subsidiaries that are not 100% owned by the company. Due to joint ownership, Hexion's 34% stake in Hexion Specialty Chemicals SDN, BHD (Hexion Malaysia), is included in the consolidated financial statements presented here. Use of estimates – The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the day of the accounting, as well as the reported amounts of income and expenses during the reporting period. The main estimates In the financial statements include environmental remediation, legal debt, deferred tax assets and liabilities and associated valuation deductions, income provisions, pension and post-retirement assets and liabilities, valuation deductions for trade receivables and inventories, general insurance obligations, impairments, related transactions and fair values of assets acquired and liabilities assumed in business acquisition. Actual results may differ from estimated amounts. Cash and equivalents – The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Included in the company's cash and equivalents are interest-bearing time deposits of $27 and $22 as of December 31, 2005 and 2004, respectively. Inventories – Inventories are listed at lower costs or markets. The cost is determined by using the first-in, first-out method. Property and equipment – Land, buildings and machinery and equipment are valued at cost. Depreciation is recorded on a straight-line basis by cost of price expenses based on the estimated lifetime of properties (the average estimated life span of buildings is 20 years; the average life span of machinery and equipment is 15 years). Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are costed as it accrues. Goodwill and intangible assets – The excess purchase price of net durable and identifiable intangible assets of unaffiliated enterprises acquired is carried out as Goodwill in the consolidated balance sheets. The company does not amortize goodwill. Certain trademarks, patents and other intangible assets used in the business activities are carried out as other intangible assets on the consolidated balance sheets. Intangible assets with determinable lives are amortized on a straight line over the shorter of the legal or useful life span of the asset, which ranges from 8 to 30 years. Certain trademarks and patents are owned by Hexion and are used on royalty-free basis by the Company. See note 6. Deferred costs – Deferred financing costs are classified as Other assets on consolidated balance sheets and amortized over the lives of the related debt or credit facility using linear method, since no installment payments are required. When retiring some of the related liabilities, a proportional share of debt issuance costs are expensed. As of December 31, 2005 and 2004, the denamortized balance was about $2. Impairment – As events warrant, the Company evaluates the recoverability of long-term assets by assessing whether the carrying amount of the assets can be recovered during their remaining lifetime through the expected future unspoken cash flows in the underlying business. Any write-down losses are determined by comparing the carrying amount of the assets with operating cash flows on a discounted basis. The company performs an annual impairment test for goodwill. See Note 7 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Still) (IN millions) of general insurance – The Company is generally self-insured for losses and liabilities related to employee compensation, physical damage to property, business interruptions and extensive general liability for products and vehicles. The insurer maintains insurance policies for certain goods that exceed deductible limits. The Company is covered by certain guidelines, mainly excess liability coverage, maintained by Hexion and is awarded a share of these prizes (see note 5). There is a loss for estimated total liability for claims when using certain actuarial assumptions followed in the insurance industry and the company's experience. Legal costs – Legal costs are incurred during the period during which a claim is made or an event becomes known, if the amounts are probable and reasonable. Each claim is awarded to a number of potential responsibilities, with the most likely amount incurred. Accrued amounts include all costs related to a claim, including settlement, assessments, judgments, fines and legal costs. Revenue recognition – Revenue for product sales, by estimated quotas and returns, is recognised as risk and title of the product transfer to the customer, which usually occurs when the shipment is made. Essentially all of the company's products are sold FOB (free on board) shipping point. Other terms include sales where risk and title pass on delivery (FOB destination point). In situations where our product is delivered via pipeline, risk and title transfers when our product moves above an agreed transfer point, which is usually the customers' property line. Product sales delivered by pipeline are measured based on daily flow meter readings. The company's standard terms of delivery are included in their sales and invoices. Shipping and handling – The company records shipping invoiced to customers in net sales. Shipping costs are incurred to move products from production and storage facilities to customers. Handling costs are incurred from the point where the product is removed from the warehouse until it is delivered to the shipper and typically includes costs for storing, moving, and preparing the products for shipment. Shipping and handling costs are recorded in sales costs in the consolidated accounts. These costs were previously reported separately as distribution costs in consolidated operating statements and amounted to $25 and $21, respectively, in 2004 and 2003, respectively. Research and development costs – Funds are committed to research and development for technical improvement of products that are expected to contribute to operating profit in the years to come. All costs related to research and development are charged expenses incurred. Research and development costs were $13, $4 and $4, respectively in 2005, 2004 and 2003, and are included in Sales, and administrative expenses. Foreign Currency Translations - Although the functional currency of Hexion Canada is the Canadian dollar, the accompanying accounts are presented in the reporting currency of Hexion Canada's parent, Hexion. To date, the assets and liabilities of the company are translated into Hexion's reporting currency, the US dollar, at the exchange rates applicable on the balance sheet date, and income and expenses are translated into average exchange rates that prevail during the year. The effect of the translation is accounted for as an adjustment of the shareholder's equity (deficit) and is included in accumulated other comprehensive losses. The Company incurred realized and unrealized net foreign transaction gains totaling $3, $0 and $0, respectively, in 2005, 2004 and 2003, respectively. Income tax – The company files individual tax returns in their respective countries. The tax cost is based on reported results of pre-income tax operations using the applicable rates for each tax jurisdiction. Deferred income tax represents the tax effect of temporary differences between asset amounts and liabilities led to financial reporting purposes and such amounts recognised for tax purposes. Deferred tax balance is adjusted to reflect tax rates, based on current tax laws that will take effect in the years in which temporary differences are expected to reverse. Deferred tax assets are reduced by a valuation deduction when, in management's opinion, it is more likely than not that part or all deferred tax assets will not be 8 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES NOTES ON CONSOLIDATED ACCOUNTS - (Still) (IN MILLIONS) REALIZED. In connection with these financial statements, the international subsidiaries are treated as foreign subsidiaries of a domestic parent, Hexion Canada, for all periods presented. Reconciliations of tax rates are calculated at the statutory Canadian tax rate. Derivatives Financial instruments – The Company does not have or issue derivative finance in financial instruments for trading purposes. The company is a party to forward contracts and foreign currency options to reduce the company's cash flow exposure to changes in exchange rates. These instruments are not accounted for the use of hedging accounts, but are measured at fair value and are recorded in the balance sheet as assets or liabilities, depending on the company's underlying rights or obligations. See note 7. Share-based compensation – effective from 1 January 2005, the company decided to adopt SFAS No. 123(R) (revised 2004), share-based payment. According to the provisions of SFAS No. 123(R), stock-based compensation costs are measured on the allocation date based on the value of the assignment and are recognised as costs over the required service period. As Hexion Canada was considered a non-public entity, on the date of adoption, which used the minimum value method of proma disclosures under SFAS No. 123, for share-based compensation, the Company is required to apply the potential transition method. As such, Hexion Canada applies the statement to any new prices and at any prices changed, repurchased or canceled since January 1, 2005. The adoption of SFAS No. 123(R) had no initial impact on Hexion Canada's financial condition and operating results. Previously, Hexion Canada accounted for stock-based prices under APB No. Pro forma net (loss) income under SFAS No. 148 was not significantly different from Net (loss) income for the years ended December 31, 2004 and 2003. See Note 5 for stock-based compensation costs assigned to the company. Concentrations of credit risk – Financial instruments that potentially expose the company to concentrations of credit risk consist mainly of cash and trade receivables. The company places cash with high-quality institutions and limits by policy the amount of credit exposure to an institution. On 31 December 2005, the company's cash is held mainly in 20 financial institutions. As of December 31, 2004, approximately $18 of the company's cash is invested in a guaranteed investment certificate with the remaining money held mainly in six financial institutions. Concentrations of credit risk with respect to trade receivables are limited, due to the large number of customers consisting of the company's customer base and their spread across many different industries and geographies. The company typically does not require security or other security to support trade receivables. Recently issued accounting standards In November 2004, FASB issued SFAS No. 151, Inventory Costs. The statement amends Accounting Research Bulletin (ARB) No. No. 43 has previously stated that these costs must be as abnormal as requiring treatment as the current period costs. SFAS No. 151 requires that these elements be recognized as current period costs regardless of whether they meet the criterion of such abnormality. In addition, this statement requires that the allocation of fixed production indirectly to the cost of conversion be based on the normal capacity of the production facilities. The statement applies to inventory costs incurred under accounting 9 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Continued) (In millions) years beginning after 15 June 2015. The Company believes that implementation of SFAS No. 151 should not have any material impact on the consolidated financial position, of operations or cash flows. In September 2005, FASB issued EITF Issue No. The issue provided guidance on the circumstances in which two or more inventory transactions with the same counterparty should be displayed as a single non-monthly transaction within the framework of APB Opinion No. 29, Accounting for non-monthly transactions. The issue also provided guidance on circumstances in which non-mone exchanges of inventory within the same business line shall be recognised at fair value. EITF 04-13 will take effect for transactions completed during reporting periods as of 15 September 2015. The company assesses the impact this issue will have on the consolidated financial statements. 3. Acquisition 29. completed the acquisition of Bakelite Aktiengesellschaft (Bakelite) in accordance with a share purchase agreement with RÜTGERS AG and RÜTGERS Bakelite Projekt GmbH (collectively, Sellers) dated 6 June

2015. The Company incurred direct costs related to the acquisition of $42, which has been capitalized as part of the purchase in accordance with SFAS 141 and is included in the net purchase price. Based in Iserlohn-Letmathe, Germany, Bakelite is a manufacturer of phenolic and epoxy thermosets and casting compounds with 13 production facilities and 1,700 employees, mainly in Europe. The acquisition gives the company additional phenolic resin technology and products and a new technology platform for epoxy resin. The Bakelite acquisition was mainly financed through an associated loan (See note 9). The Bakelite acquisition is fiscally created under the accounting method. Bakelite's results are therefore included in the company's financial statements since the date of acquisition. To reduce the risk of exposure in foreign currency related to the Bakelite acquisition, Hexion and the company entered into a currency position of $235 to buy euros with US dollars, depending on the closing of the transaction. Upon completion of the Bakelite acquisition, the Company realized a total loss of approximately $9 on this contract, which is included in other non-operating expenses in consolidated operating statements (see note 7). 10 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Still) (In millions) The table below summarizes the preliminary estimated real values of the assets acquired and liabilities assumed on the date of acquisition. The fair value is based on preliminary assessments and internal studies and is subject to final adjustments. Fair value on April 29th, 2005 assets $290 Property, plant and equipment 166 Other assets 4 Intangible assets 72 Goodwill 63 Total assets acquired $ 266 11 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements - (Still) (In millions) Of $72 of acquired intangible assets, $19 was awarded to the trade names, $16 was awarded to technology and $37 was awarded customer relationships. The acquired intellectual property with limited lives has a weighted average life span of approximately 18 years. The trade names have a 30-year lifespan, the technology has a 13-year lifespan and customer relationships have a 14-year weighted average lifetime. Goodwill of $63 is not expected to be deductible for tax purposes. The company plans several measures to increase the profitability of Bakelite, including the completion of headcount reductions previously initiated by Bakelite. The measures include reductions in the number of employees mainly in Germany, Italy and Spain; and closure of two facilities. The reductions in the number of employees and plant closures will be completed by 2007. The expenses associated with these measures will be substantially completed by 2009. The purchase price award includes a liability of $23 that reflects the estimated costs of these activities as follows: Businessrealignmentrollforward Opening Balance: Headcount reduction $20 Plant closure costs 3 Total opening balance 23 Headcount expenses (2) Translation adjustment (2) Balance sheet as of December 31, 2005 $19 The amounts of these original estimated liabilities are subject to revision to reflect final analysis of associated activities and costs to be completed by April 2006. The following unaudited financial information about proma combines consolidated results of operations as if the Bakelite acquisition had occurred from the beginning of the periods presented. Pro-form adjustments include only the effects of events that can be directly attributed to the acquisition. The proma adjustments reflected in the tables below include amortization of intangible assets, depreciation adjustments due to impairment of property, plant and equipment at estimated fair market value, interest expense on acquisition debt and related tax effects. 2005 2004 Net sales $1,495 $1,336 Net income (loss) 5 (30) Net income for the year ended December 31, 2005 includes $7 of sales costs related to stock sold that were stepped up on the acquisition date. The financial information in proma does not necessarily reflect the operating results that would have occurred 100 billion 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 000 0000 000 0000 000 000 000 0000 0000 000 0 Fentak Acquisition in November 2003, the company acquired Fentak Pty. Ltd. (Fentak), an international manufacturer of specialty chemical products for three, lamination and paper impregnation markets, for cash at $11 12 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARY REMARKS NOTES TO CONSOLIDATED ACCOUNTS - (Still) (IN MILLIONS) and further deferred payments of about $3. The Fentak acquisition has been accounted for the use of the accounting method. To date, the results of the operation of the acquired entity are included from the date of acquisition. The proma effects of the acquisition are not significant. 4. Restructuring and write-downs in 2005 and previous years, Hexion initiated plant consolidation and other business adjustment initiatives, which include activities affecting the company. These initiatives focused on improving the efficiency of both production and management functions and are designed to focus resources on core operational forces. The associated restructuring fees consist mainly of employee closing consideration, asset consolidation and environmental remediation costs and asset write-downs. December 2005 During 2005, the Company recorded net restructuring and impairment expense of $11, comprising $3 of plant closure and plant cleanup costs closed in previous years and write-down of $9 for a production line in the UK offset by a gain of $1 on the sale of a previously weakened assets. The UK write-down is due to the company's decision to close its PRODUCTION line in the UK in 2006 and transfer production to other facilities to improve efficiency. The write-down reduces the registered value of the affected fixed assets to their recoverable value, which was determined from the discounted cash flow attributable to the assets. The company estimates that it will pay the closing of $3 relating to the UK closure in 2006, which will be recognised as expenses during the period the affected employees are required to provide services. As of December 3, 2004, the Company registered net restructuring and impairment expenses of USD 3, mainly related to construction closure costs (which included environmental remediation costs) for previously closed facilities and other closing and employee costs of USD 1, 2003 during 2003, the Company recorded net restructuring and impairment income of $4, consisting of a gain on the sale of a previously closed UK facility of $12 , offset by plant closure costs (which included environmental remediation costs) and other closing costs of $6 and other non-cash impairment costs of $2. Construction closure costs relate to previously closed facilities in Brazil and the United Kingdom, ($4) and a plant in Canada closed in 2003 ($2). As a result of the annual write-down analysis (see note 6), the Company recorded a goodwill write-down of USD 1. The company recorded write-downs of $1 at a previously closed facility in the UK. 13 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. And Financial statements -(Still) (In millions) The following is a roll forward of the Company's reserve for restructuring activities, including the reserves in the opening balance of Bakelite per the date of acquisition (see note 3): PlantClosureCosts OtherSeveranceCosts Total Reserve as of December 31, 2002 $6 $1 $7 2003 Expenses 6 - 6 2003 Payments / Settlement (7) (1) (8) Reserve on December 31, 2003 5 - 5 2004 Expenses 2 1 3 2004 Payments/Settlement (3) (1) (4) Reserve on December 31, 2004 4 — 4 2005 Cost 3 — 3 2005 Payments/settlement (5) — (5) Bakelite – Reserve at acquisition date 3 20 23 Bake 5 -- Payments - (2) (2) Bakelite - translation adjustment - (2) (2) Reserve on December 31, 2005 $5 $16 $21 5. Related party transactions Hexion incurs various administrative and operating expenses on behalf of Hexion Canada that are refunded by the Company. These costs include engineering and technical support, procurement, quality assurance, sales and customer service, information systems, research and development and certain administrative services. These service costs are allocated to the company typically based on sales or sales volumes and when they can be determined, based on actual use of resources. These costs are included in Sales, General and Administrative Expenses and Cost of Goods Sold and were $7, $7 and $8 in 2005, 2004 and 2003, respectively. In addition, Hexion maintains certain assurances, primarily excess liability coverage, that benefit Hexion Canada. Amounts related to this policy and allocated to the Company based on sales were $1, $2 and $2, respectively in 2005, 2004 and 2003, respectively. The company sells finished goods and certain raw materials to Hexion and some subsidiaries. Total sales were $57, $29 and $25, respectively in 2005, 2004 and 2003, respectively. In addition, the company buys raw materials and finished goods from Hexion and some subsidiaries, which totaled $67, $11 and $8, respectively in 2005, 2004 and 2003, respectively. These sales and purchases are priced in the same way as prices charged outside customers. Total accounts payable, net receivables, related to these intercompany transactions were $10 and $5, respectively, as of December 31, 2005 and 2004, respectively. In addition to direct costs, Hexion offers certain administrative services that are non-refundable by Hexion Canada. These costs include corporate-controlled expenses such as management, legal, health and safety, accounting, tax and credit, and have been allocated here to the company on the basis of net sales. The financial fee includes a share-based compensation cost of $3 for the year ended September 31, 2015. Management believes that the amounts awarded in such a way are reasonable and consistent and are necessary to portray the company's financial performance on a standalone basis. However, the amounts are not necessarily a sign of the costs that would have incurred if Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Still) (In millions) the company had operated independently. This expense is included in Sales, general and administrative costs with the counteracting credit registered in the Shareholder's equity (deficit). There is no income tax given on these amounts as they are not deductible. The following table summarizes these awards for the years ended December 31: 2005 2004 2003 Executive Group $4 $4 $4 General Counsel 1 3 3 Environmental, Health, and Safety Services 1 1 1 Finance 9 6 5 $14 $13 In addition to Hexion administrative services costs, the company was awarded a share of the transaction costs related to the combination of $8 in 2005 and a share of the transaction costs related to the acquisition of $20 in 2004. These costs are classified into transaction-related costs in the consolidated financial statements. The distribution of these costs was made on the basis of Net Sales. The offset credit related to the grants is included in the Shareholder's equity (deficit). In 2005, the company refunded Hexion $6 for amounts related to the prior year's allocations. Prior to 2001, the Company incurred royalties for use in the operation of certain trademarks and patents owned by Hexion. As of December 31, 2005 and 2004, the Company had amounts due to Hexion under these schemes of $7 and $8 respectively. These amounts are included as associated royalties and are classified as long-term due to restrictions on the ability to repay. In connection with Bakelite Acquisition, in exchange for deal restructuring and negotiations provided by Apollo, the company made payments to Apollo in the amount of $4. These amounts are considered direct costs of the acquisition and are capitalised as part of the purchase (see note 3). Also in conjunction with Bakelite Acquisition, the company sold the US businesses Bakelite to Hexion for an agreed price of $1. Hexion Canada guarantees Hexion's $34 Parish of Ascension Industrial Revenue Bonds, for which Hexion pays the company a guarantor fee annually. The company had a 12.6% stake in a Spanish subsidiary of Hexion. The subsidiary applied for liquidation before 2000, and paid a liquidated dividend of $1 to the company in 2003. See Note 9 for a description of the company's associated financing activities. 6. Goodwill and other intangible assets At 31. 142, Goodwill and Other Intangible Assets, management identified the relevant reporting entities and identified the assets and liabilities (including goodwill) of the reporting entities. They determined estimated fair values for the reporting units and assessed whether the estimated fair value of each reporting unit was more or less than the capitalized amount for the assets and liabilities assigned to the units. was carried out using a standard methodology based largely on comparable company analysis. Comparable company analysis attributes a value to a unit by comparing certain operating calculations for unit 15 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes on consolidated accounts – (Still) (In millions) with a set of comparable companies in the same industry. This method compares market plumes and conditions based on operating results, financial and equity markets across different companies and to the unit being valued. Management used a comparable analytical technique commonly used in the investment banking and private equity industries to estimate the values of the reporting units – EBITDA (earnings before interest, taxes, depreciation and amortization) several techniques. Under this technique, estimated values are the result of an EBITDA multiple derived from this process applied to an appropriate historical EBITDA amount. As of December 31, 2005 and 2004, the fair value of each reporting unit exceeded the carrying amount of assets and liabilities allocated to the units. As of December 31, 2003, the fair value of each reporting unit exceeded the carrying amount of assets and liabilities, with the exception of Hexion Malaysia. Based on the excess of book value above the estimated fair value of Hexion Malaysia, the Company recorded a goodwill impairment charge of $1 due to a decrease in operating profit that accounted for 100% of the unit's registered goodwill balance. This impairment charge is reflected in the combined operating statement for 2003 as restructuring and write-downs in the business. The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 are as follows: Total Goodwill balance as of December 31, 2003 $15 Purchase accounting adjustments from goodwill to intangible assets, related to Fentak acquisition (5) Goodwill balance sheet as of December 31, 2004 10 Acquisition of Bakelite 63 Foreign currency translation (5) Goodwill balance sheet as of December 31, 2004 10 Acquisition of Bakelite 63 Foreign currency translation (5) Goodwill balance sheet as of December 31, 2004 10 Acquisition of Bakelite 63 Foreign Currency Translation (5) Goodwill balance as of December 31, 2004 10 Acquisition of Bakelite 63 Foreign currency translation (5) Goodwill balance as of December 31, 2004 10 Acquisition of Bakelite 63 Foreign currency translation (5) Goodwill balance sheet as of December 31, 2004 04 10 Acquisition of Bakelite 63 Foreign currency translation (5) Goodwill balance as of December 31, 2004 10 Acquisition of Bakelite 63 Foreign currency translation (5) Goodwill balance sheet as of December 31, 2004 10 Acquisition of Bakelite 6 , 2005 $68 Intangible assets consist of the following on December 31st: 2005 2004 GrossCarryingAmount Accumulated Amortization GrossCarryingAmount AccumulatedAmortization Intangible Assets: Customer Relationships $140 $5 $3 $0 Patents and Technologies 18 3 2 1 Tradenames 20 2 1 - $78 $ $6$1 Impact of foreign currency translation adjustments are included in accumulated amortization. Total intangible amortization costs were $4 and $1, respectively, for the years ended December 31, 2005 and 2004, respectively. The estimated annual intangible amortization costs for 2006 to 2010 are $4 per year. 7. Financial instruments The following table presents the balance sheet or nominal amounts and real values of the company's financial instruments as of 31.12.2005 and 2004. The fair value of a financial instrument is estimated amount to 16 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notices to Financial statements – (Still) (In millions) that the instrument can be exchanged in a current transaction between willing parties, other than in a coercive or liquidation sale. Fair value is determined by quoted market prices where available or based on other similar financial instruments. The balance sheet amounts of cash and equivalents, trade receivables, accounts payable, associated royalties and other liabilities are considered reasonable estimates of their fair values. The tables below include the balance sheet and fair values of the company's financial instruments as at 31 March 2015. 2005 2004 CarryingAmount Fair Value CarryingAmount Fair Value Nonderivatives Debt $57 $57 $15 $15 $15 Associated Debt 455 455 285 285 2005 2004 Average days to maturity Average contract rate nominal amount Fair value gain ((Loss) Average days to Maturity Average contract rate NominalAmount Fair value gain (loss) Currency of sale for euro British pound (1) 90 .6987 23 (1) — US Dollar (1) 60 1.2122 3 — Currency to sellFor U.S. Dollar Canadian dollar (2) — - - 183 1.3200 36 - Canadian dollar (3) - 183 1.2300 36 (2) Currency of saleFor CDN Dollar British Pound (1) — — - 31 2.3255 42 1 (2) Set options purchased on December 31, 2005, the company had derivative losses of $1 classified as other short-term liabilities. As of December 31, 2004, the Company had derivative losses of USD 2 classified as other current liabilities and derivative gains of USD 1 classified as Other assets. Gains and losses are recognised quarterly through the consolidated financial statements. The Company does not have or issues derivative finance in financial instruments for trading purposes. Valuta International's operations account for a significant portion of the company's revenues and operating revenues. It is the company's policy to reduce exposure to foreign currency cash flows due to exchange rate fluctuations by securing expected and firmly committed transactions when it is financially possible. The Company enters into forward and option contracts to buy and sell foreign currency to reduce currency exposure and protect the US dollar value of such transactions to the extent that the amount under contract. These contracts are designed 17 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to consolidated financial statements - (Still) (In millions) to minimize the impact from currency on operating income and on certain balance sheet exposures. The company is subject to credit losses in the event of a lack of performance from other parties in the contract. The company evaluates the creditworthiness of its counterparty's financial condition and does not expect default by its counterparties. 8. Liabilities outstanding debt as at December 31, 2005 and 2004 are as follows: 2005 2004 Long term, net of current rental Due within one year Long term, net short-term port due within one year CBA Australia, term loans, due 2008, interest rate of 6.4% per year, quarterly payments, secured with assets in the business $5 $1 $7 $2 Nordea Bank, Finland PLC, term loans, due 2008, interest rates of Euribor + 0.65% per year, 2.77% per year in December 2005 12 - - Korea Exchange Bank, due in 2007, variable rate, at 6.9% per year as of December 2005, paid quarterly, certain properties promised as collateral 2 3 - Other different debt, including term loans, capital lease obligations 2 2 - - Korea Exchange Bank revolving loans, variable rate of 5.6% -6.9% per year, paid monthly, trade receivables of Hex ion Korea promised as collateral - 9 — Working capital revolving loans, various banks, for Taro Plast, S.p.A., variable rate, at 2.75% per year in December 2005 - 12 — - Australia , rotating facilities, secured by assets of the business , variable rate, 5.97% per year as of December 2005 - 3 - 2 Santander /Safra Bank, Brazil, revolving credit facilities, variable rate, 20.8% per year as of December 2005 - 4 - 4 Other - 2 - - Total debt, capital lease obligations and rolling loans $21 $36 $7 $8 18 Table of Contents HEXION CHEMICALS CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to Consolidated Accounts -(Continuing) (In Millions) On December 31, 2005, total credit facilities available are $126. Draws against the facilities of debt and credit letters totaling $73, allowing an unused balance sheet available of $53 to fund working capital requirements and capital expenditures. The credit facilities have different expiration dates from 2006 to 2008. While these facilities are primarily unsecured, parts of the lines are secured with equipment as of March 31, 2015. Hexion guarantees up to $7 of the debt of a Brazilian subsidiary included in these facilities. In May 2005, Hexion entered into a new $775 senior secured credit facility (Hexion Credit Facility) and replaced and repaid certain other credit facilities. Hexion Credit Facility has a $225 revolving credit facility and $500 term loan facility. The plant also provides a $50 synthetic letter of credit facility (LOCs). Interest on the term and rotating loan facilities is LIBOR plus 2.5% or higher by prime rate plus 1% or Federal Funds Rate plus 1.5%. Loans denominated in euros will carry interest rates of EURO LIBOR plus 2.5% or the rate cited by JPMCB as its base rate for such loans plus 1%. Loans made in Canadian dollars will carry interest rates on Canadian Bankers' Acceptance Rate plus 2.5% or higher off the prime rate plus 1% or the average banker acceptance rate plus 1.5%. Interest rates are subject to reduction based on an improved leverage ratio. Hexion Credit Facility has commitment fees (other than with respect to the synthetic LOC facility) equivalent to 0.5% per year of unused line fee plus a fronting fee of 0.25% of the total face amount for outstanding LOCs. The synthetic LOC facility has a commitment fee of 0.1% per year. Hexion Credit is secured by substantially all assets in Hexion, subject to certain exceptions. Hexion Credit Facility includes, among other things, restrictive covenants on debt, payments and distributions, mergers and acquisitions, asset sales, associated transactions, capital expenditures and maintenance of certain financial ratios. Payment of loans under Hexion Credit Facility can be accelerated in case of default. Non-compliance incidents include non-payment of principal and interest when due, a material breach of representation or warranty, covenant standard, bankruptcy events and a change of control. The Company complies with all covenants in the Hexion Credit Facility and those under other loans as of December 31, 2005. Some of the subsidiaries of Hexion Canada are eligible to participate in the Hexion Credit Facility. Currently, subsidiaries in Germany and the United Kingdom can each borrow a maximum of $75 while the Canadian operating subsidiary can borrow a maximum of $50. There are cross-security guarantees where Hexion Canada is a guarantor of the European loans under the Hexion Credit Facility; while the Company's European subsidiaries warrant against any breach of Hexion Canada. 19 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Continuation) (In millions) Total maturity of total un associated liabilities and minimum annual rent under operating leases as of 31 March 2005, for the company is as follows: Year Debt MinimumRentals UnderOperating Leases 2006 $36 $4 2007 7 4 2008 13 3 2009 1 3 2010 - 3 2011 and beyond - 4 $57 $21 Rental expenses amounted to $4, $2 and $2 in 2005 2004 and 2003. 9. Loans due to affiliates as mentioned in Note 1, to finance the acquisition of the subsidiaries from Hexion, the company assumed a fixed rate note of CDN $343, or about $294 and $285 on December 31, 2005 and 2004, respectively, paid to Hexion Nova Scotia Finance ULC (Nova Scotia), a subsidiary of Hexion. The note has an interest rate of 10% and is due July 15, 2014. Interest expense related to this note amounted to $29 and $11 for 2005 and 2004, respectively. Interest to be paid at $0 and $11 respectively on consolidated balance sheets as of December 31, 2005 and 2004, respectively. In connection with the issuance of this note, Hexion entered into a joint share recontract with Hexion Canada that required Hexion to subscribe for shares of Hexion Canada shares to CDN $845 per share on the main repayment date of the loan. To finance the acquisition of Bakelite in 2005, Hexion Canada also borrowed CDN $308 from Nova Scotia. Approximately CDN$119 (or $95) was effectively repaid during 2005, via a capital contribution from Hexion to reflected in the shareholder's equity (deficit). The remaining outstanding loan balance on December 31, 2005 is CDN $189 or about $161. The loan is due 15.07.2010. The loan has a variable rate equal to the three-month US LIBOR rate plus 675 basis points, which was approximately 11.5% as of March 31, 2015. Interest expense related to this loan amounted to $11 for the year ended December 31, 2005. In connection with the acquisition, Hexion contributed to a claim note that the company paid to a newly created subsidiary, which was later acquired by Hexion Canada; Therefore, the loan and related interest rates are eliminated after 12 August 2004. Interest expense to Hexion was $1 and $2, respectively, for the years ended December 31, 2004 and 2003. Warranties, indemnities and warranties Standard guarantees / Indemnity in the ordinary business process, the Company enters into a number of agreements containing standard warranties and liability where third parties are indemnity for, among other things, violations of representations and warranties. Such warranties or indemnity are granted under various agreements, including those governing (i) the purchase and sale of assets or businesses, (ii) leases of real estate, (iii) license 20 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to consolidated accounts -(Still) (IN millions) of intellectual property, (iv) long-term supply agreements, (v) employees benefits services agreements and (we) agreements with public authorities regarding subsidies received for designated research and development projects. The warranties or replacements issued are for the benefit of (i) buyers in deals and sellers in purchase agreements, (ii) landlords or landlords in leases, (iii) licensors or licensees in license agreements, (iv) suppliers or customers in long-term supply agreements, (v) service providers in employee services agreements and (we) governments or agencies that subsidize research or development. In addition, the company guarantees certain payables of its subsidiaries for the purchase of raw materials in the ordinary business process. These parties may also be replaced against any third party claims arising from the transaction assessed in the underlying agreement. In addition, in connection with the sale of assets and the sale of businesses, the company may agree to indemnified the buyer with respect to obligations related to the pre-closing of the assets or businesses sold. Indemnity related to prior-term activities generally includes tax obligations, environmental obligations and employee benefit obligations that the buyer undertook in the transaction. Indemnity related to pre-closing of sold assets does not normally represent additional obligations to the company, but simply serves to protect the buyer from potential liability related to existing obligations at the time of sale. As with any liability, the Company has accrued for the pre-termination obligations deemed to be probable and reasonably reasonable. Such amounts are not significant. While some of these warranties extend only during the underlying agreement, many survive the expiry of the term of the agreement or extend to perpetual (unless subject to a legal statute of limitations). With respect to certain of the aforementioned warranties, the insurer maintains limited insurance coverage that reduces any payments to be made. There are no specific limits on the maximum potential amount for future payments that the Company may be required to make under these warranties, nor is the Company able to develop an estimate of the maximum potential amount for future payments to be made under these warranties, as triggering events are not foreseeable. The Company has not entered into any material agreement that will require that, as guarantors, they recognize a liability for the fair value of obligations they have entered into when issuing the warranty. Warranties Company makes no express warranties on its products, other than that they comply with its defined specifications; Therefore, no warranty liability has been registered. Adjustments for product quality requirements are not significant and are charged to sales revenues. 11. Obligations and situations Environmental issues Because the company's activities involve the use, handling, processing, storage, transport and disposal of hazardous materials, it is subject to extensive environmental regulation and is exposed to the risk of environmental remediation or restoration requirements. In addition, violations of environmental laws or permits may result in restrictions imposed on operational activities, significant fines, penalties, damages or other costs, which can have a material negative effect on the company's business, financial condition, results of operations or cash flows. Provisions for environmental issues are recorded in accordance with the guidelines in the Statement 96-1, Environmental Remediation Liability, when it is likely that a liability has been incurred and how much responsibility can reasonably be estimated. Environmental deposits are temporarily reviewed and as events 21 table of contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Continuation) (In millions) and development orders. Based on management estimates, which are determined through historical experience and consultation with external experts, the company has registered commitments, related to eight locations, of $3 and $4, respectively, by December 31, 2005 and 2004 for all probable environmental remediation, indemnity and restoration obligations, respectively. These amounts include estimates of infringed claims management believes are likely loss and reasonable estimable. Based on available information and analysis, management believes that it is reasonably possible that the costs associated with such sites could fall within a range of $2 to $5, overall, on December 31, 2005. This estimate of the extent of reasonable possible costs is less certain than the estimates on which the debt is based, and in order to establish the upper end of such an area, assumptions were less favorable to the company among the extent of reasonable possible outcomes used. As with all estimates, if the facts or circumstances change, the final result may differ materially from these estimates. The factors affecting the final result include the remediation methods to be selected, the conclusions and assessment of location studies that remain to be completed and the time period required to complete the work. The Insurer does not expect any recovery of these costs from insurance coverage or from other third parties. There are no other potentially responsible parties for these sites. In four of these locations, the company is conducting environmental remediation and restoration under business adjustment programs due to the closure of the facilities. Total reserves associated with these sites included in the restructuring were $2 and $4 as of December 31, 2005 and 2004, respectively. Much of this remediation is carried out by the company on a voluntary basis in coordination with local regulatory authorities; Management therefore has greater control over the costs incurred and the timing of cash flows. The company expects that approximately $2 of these liabilities will be paid over the next four years, with the remaining amounts paid over the next ten years. As a result of Bakelite Acquisition, an area was acquired in Duisburg, Germany with significant soil and groundwater pollution under a plant shared with Rütgers Chemicals AG (Rütgers). Rütgers is in discussions with the municipalities about a proposed remediation plan; However, the scope and scope of this plan and the cost of possible implementation are not yet reasonable. Rütgers has contractually agreed to provide indemnity to the company with respect to this matter until 2025, except for certain exceptions and limitations. Management believes it is unlikely that the company will have to take comprehensive measures for remediation. While it is reasonably possible that some costs may be incurred related to these sites, the Company has insufficient information to enable it to estimate a potential area of responsibility, if any. Lawsuits The Company is involved in various product liability, business and employment cases, personal injury, property damage and other litigation deemed to be in the ordinary business process. The following legal requirements are not in the ordinary business process: In 1992, the State of Sao Paulo Tax Bureau issued an assessment against Quimica, a wholly owned subsidiary of the company, argued that excise duties were due to certain intercompany loans made for centralized cash management purposes, characterized by the IRS as intercompany sales. Since then, management and the IRS have had discussions, and Brasil Quimica has appealed the case seeking cancellation of the assessment. In December 2001, the Administrative Court upheld the assessment. In September 2002, Brazil Quimica filed a new appeal to the supreme court, again seeking to cancel the review. It was argued before the court in September 2004. the company is awaiting its 22-table HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to consolidated accounts -(Still) (IN MILLIONS) ruling. As of December 31, 2005, the amount of the assessment, including tax, penalties, monetary correction and interest is 54 million Brazilian Reais, or about $23. Management believes Brazil Quimica has a strong defense against the assessment and will pursue the appeal vigorously; including appeal to the court level; However, there can be no guarantee that the assessment will not be upheld. At this time, the company does not believe a loss is likely, therefore only related legal costs are incurred. The Company has reserved $3 and $2 respectively on December 31, 2005 and 2004 respectively related to all non-environmental legal matters for legal defense and settlement costs that they believe are probable and estimable at this time, respectively. 12. Pension and retirement savings plans The Company and its subsidiaries sponsor non-contributory defined benefit pension schemes that cover most Canadian employees, and foreign employees in some countries. Depending on the plan, the benefits are based on qualified compensation and/or years of credited service. Prior to the combination, the measurement date for the Canadian plan was June 30, 2015. As of 2005, the company has chosen to make the measurement date for all pension liabilities as at 31 March 2005. This change in the measurement date had an insignificant effect on the benefit obligation and expenses recognised for 2005. The following is a rollforward of the expected benefit obligation and assets for the Company's performance-based plans. 2005 2004 Change in benefit obligation obligation at beginning of year $8 $7 Service cost 2 — Interest expense 3 1 Actuary gains (5) — Changes in exchange rate changes (10) 1 Benefits paid (2) (1) Acquisition 114 — Benefit obligation at the end of year 110 8 Change in plane assets Fair value of pension assets at the beginning of year 5 5 Actual return on pension assets 1 — Changes in the exchange rate — 1 Employer's national insurance contributions 2 — Paid benefits (2) (1) Fair value of plan assets at the end of the year 6 5 Plane assets less than the benefit obligation (104) (2) Unknown net actuarial loss (1) 4 Unknown previous service cost — — Net liability $ (105) $2 23 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to consolidated accounts -(Still) (IN MILLIONS) Amounts recognized in the balance sheet, after reclassification of the prepaid pension asset to reflect a minimum pension liability adjustment for certain plans, consists of: 2005 2004 Accrued benefit obligations $ (110) $ (2) Accumulated other comprehensive loss 5 4 Net amount recognized $ (105) $ 2 The Company accrued benefit liability of $ 110 includes $ 4 registered in Other short-term liabilities in December 31 , December 2005 included the Company's accrued benefit obligation of USD 2 $1 registered in other current liabilities. The company's acquisition of Bakelite in the second quarter of 2005 included two unfunded performance-based plans in Germany, with a total expected profit commitment of $114 on the date of acquisition. The currency impact reflected in the rollforward is related to changes in the euro versus the US dollar. The following summarizes defined benefit pension schemes with an accumulated benefit obligation beyond pension assets: 2005 2004 Expected benefit obligation $110 $8 Accumulated benefit obligation 102 7 Fair value of plan assets 6 5 The following are the components of net pension costs recognised by the Company for the years ended December 31: 2005 2004 2003 Service costs $ 2 $ - $ - Interest cost on expected benefit commitment 3 1 - Expected return on assets - (1) - Net pension cost $ 5 $ - $ - Determination of actuarial assumptions The Company's actuarial assumptions are determined separately for each plan , with respect to the demographics of the population, target allocations for funded plans, regional economic trends, statutory requirements and other factors that may affect the benefit obligation and assets in the plan. The selected discount rate reflects the rate at which pension liabilities can be effectively settled. When choosing a discount rate, the company takes into account interest rates on government bonds and high-value corporate bonds, as well as annuity price information furnished by local insurers, for instruments with durations in accordance with the duration of the debt measured. The increase in future compensation levels is determined based on wage and wage trends in chemical and other similar industries, as well as the company's specific compensation targets by country. Input is taken from the company's internal personnel group, and outside actuators. The rate includes components for both wage growth and profits increases. 24 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Continuing) (In millions) The expected long-term return on plan assets is determined based on the plan's current and expected asset mix. When determining the expected total long-term return of the company takes into account the interest rates on long-term debt investments in the portfolio, as well as expected trends in equity markets, for plans including equity securities. Professional data and historical returns are reviewed, and the company consults with its actuators, as well as investment professionals, to confirm that the company's assumptions are reasonable. The weighted average interest rates used to determine the benefit obligations for the company were as follows: 2005 2004 Discount rate 4.3 % 6.0 % increase in future compensation levels 2.5 % 3.0 % The weighted average interest rates used to determine the net pension cost for the company were as follows: 2005 2004 2003 Discount rate 4 4% 6.0 % 6.05 % Increase rate in future compensation levels 2.5 % 3.0 % 3.5 % Expected long-term return on pension assets 7.0 % 7 8% 7.8% Investment policy and strategies The company's investment strategy for the assets in its Canadian defined benefit pension plan is to maximize the long-term return on plan assets using a mix of equities and fixed income investments and accept a prudent level of risk. Risk tolerance is established by careful consideration of plan commitments, plan-funded status and the expected time of future cash flow requirements. The investment portfolio includes a diversified mix of equity and fixed income investments. Furthermore, equity investments are diversified across the Canadian. and foreign equities, as well as growth, value and small and large capital investments. Investment risk and results are measured and monitored continuously through quarterly investment portfolio assessments, annual liability measurements and periodic asset/liability studies. The company regularly reviews its target allocation of Canadian plane assets among various asset classes. The targeted allocations are based on expected asset performance, discussions with investment professionals and the expected timing of future benefit payments. The following is a summary of weighted average allocations of plan assets for the company's Canadian plan by investment type at the measurement dates for 2005 and 2004, and weighted average 2006 allocations: Actual targets North American pension funds 2005 2004 2006 Equity securities 60% 58% 60% debt securities 35 % 38 % 30 % Cash short-term investments and other 5 % 4 % 10 % 100 % 100 % 100 % Estimate of plan contributions and benefit payments The Company expects to make contributions totalling USD 4 to its performance-based plans in 2006. 25 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements - (Continuing) (IN MILLIONS) Estimated future planning benefits as of 31 December, 2005 is as follows: 2006 $3 2007 4 2008 4 2009 5 2010 5 2011 to 2015 27 Deposit plans The Company provides benefits under various performance-based contribution plans to its employees in different countries. Depending on the country and the plan, salaried and hourly employees can contribute up to 7% of their salary as a basic contribution to the plans. The company makes contributions to these plans in amounts up to 100% of basic contributions. Costs for operations for matching contributions under these deposit plans in 2005, 2004 and 2003 respectively amounted to $2, $2 and $2. 13, respectively. Non-retirement benefits The company offers other postal resements plans to its Canadian employees. This plan gives retirees and their relatives certain medical and life insurance benefits. These benefits are funded on a pay-as-you-go basis. The plan participants are provided with additional benefits to the respective provincial health care plan in Canada. The domestic postretirement medical benefits are contributing; canadian medical benefits are non-contributing. The domestic and Canadian postretirement life insurance benefits are non-contributing. Prior to the combination, the measurement date for this plan was June 30, 2015. As of 2005, the company has chosen to make the measurement date for its obligations after 31 March 2005. This change in the measurement date had an insignificant effect on the benefit obligation and expenses recognised for 2005. The following is a rollforward of the expected benefit obligation for the years ended March 31, 2015. 2005 2004 Change in benefit obligation obligation at beginning of year $3 $3 Interest expense 1 - Actuarial loss 1 - Benefit obligation at end of year 5 3 Unknown net actuarial loss (3) (2) Accrued postretirement obligation at end of year $2$1 Net postretirement (benefit) expense for the Company was less than $1 million for the years ended December 31 2005, 2004 and 2003. The weighted average discount rates used to determine the benefit obligations for the company were 6.5% for both periods presented. 26 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements - (Still) (In millions) The weighted average discount rates used to determine the net postal reciprocement (benefit) cost for the company were 6.5%, 6.0% and 6.5% respectively for the years ended March 31, 2015. The following are the weighted average estimated health cost trends as of March 31, 2015. 2005 and 2004: 2005 2004 Health cost trend rate estimated for next year 7.2% 7.5% Rate as the cost trend is expected to decline (the ultimate trend rate) 4.4 % 4.4 % Year that rate reaches the final trend rate 2015 2015 A one percentage point change in the projected trend rates for healthcare will have the following impact on the company's benefits after retirement : 1% increase 1% reduction Effect on total service costs and interest cost components $ - $ - Effect on postretirement benefit commitment 1 (1) Expected future plan benefit payments for 2006-2010 are less than $1 per year, and about $1 overall. Expected future plan payments for the years 2011-2015 are $1. Shareholder's equity (deficit) Shareholder's equity (deficit) as at 31 March 2015 Capital paid for periods prior to the reorganisation of the company on 12 May 2015. Hexion Canada has 489,866 shares of non-par common shares outstanding in all periods presented with an unlimited number of shares of common preference and Preference B shares authorized. In 2005, Hexion made a $95 capital contribution to the company related to a partial repayment of Hexion Canada's loan from Nova Scotia to finance the acquisition of Bakelite (see Note 9). In 2004, Hexion made a capital contribution to the Company for $1 related to interest capitalized by Hexion in connection with a capital project completed by Hexion Canada during 2004. In 2003, Hexion made capital contributions of $49 and $3 related to loans due to Hexion from two of the company's subsidiaries. Hexion Malaysia paid joint dividend to the company of $1 for the year ended December 31, 2004. Borden Panama paid a dividend of $2 to the company for the year ended December 31, 2003. Income Tax Comparative analysis of Hexion Canada's income tax expenditure (benefit) follows: 2005 2004 2003 Current Federal & provincial $ (2) $ 5 $ (6) Foreign 8 2 4 Total 6 7 (2) Deferred Federal & provincial 1 - 0 Foreign (2) 16 1 Total (1) 16 1 Income Tax cost (benefit) $5 $23 $ (1) 27 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements – (Continuation) (In Millions) A reconciliation of the Company's total differences between income tax calculated on Canadian federal statutory tax rate of 22.12% and provisions for income tax follows: 2005 2004 2003 Income tax calculated on federal statutory tax rate $3 $ - $8 Foreign rate difference 2 2 3 Expenses not deductible for tax 2 8 1 Unpatriated earnings of foreign subsidiaries 2 14 - Adjustment of previous estimates and others (4) (3) (15) Provincial taxes and others - 2 2 Income tax cost (benefit) $ 5 $ 23 $

(1) The consolidated tax cost for 2005 reflects higher tax rates in foreign jurisdictions compared to the domestic rate of 22.12%. Following its acquisition in August 2004, Apollo decided that the non-waived earnings of its foreign subsidiaries are no longer considered permanently reinvested. As such, 2004's consolidated tax charge reflects a provision of $14 for taxes related to the non-depreciated earnings of the foreign subsidiaries. The consolidated tax benefit from 2003 reflects a release of reserves for previous years' Canadian tax audits of $16. These reserves were released as a result of settlement of audit problems related to the divestment of operating company in previous years. The domestic and foreign components of the Company's combined income (loss) before income tax are as follows: 2005 2004 2003 Domestic $ (7) $ 6 $ 22 Foreign 22 (4) 13 $ 2 $ 2 $ 35 28 Table of Contents HEXION SPECIALTY CHEMICALS CANADA, INC. AND SUBSIDIARIES Notes to the consolidated financial statements – (Still) (In millions) The tax effects of the company's significant temporary differences, and net operating losses and credit carrying, which include deferred tax assets and liabilities as at 31 March 2015. 2005 and 2004, are as follows: 2005 2004 Assets Accrued assets and other expenses $10 $3 Net operating loss and credit carrying 13 14 Pension liabilities 16 2 Certain intangible assets 5 — Gross deferred tax assets 44 19 Valuation deduction (20) (10) 24 9 liabilities Property , facilities, equipment and intangible assets 43 13 Unwritten income from foreign subsidiaries 13 14 Other long-term liabilities 5 — Gross deferred tax liability 61 27 Net deferred tax liability $37 $18 The Company's deferred tax assets include foreign net operating losses that are further. As of December 31, 2005, the foreign net operating losses are available at $43, mainly related to the UK. These net operating losses have unlimited transmission and do not expire. A valuation allowance of $11 is given against these attributes. The Canada Revenue Agency is currently auditing the Canadian company for the period 2001-2002. The tax years 2003-2005 remain open for inspection and examination by various Canadian tax authorities. 16. Additional information Changes to the customer deduction for questionable accounts are as follows for the year ended September 31, 2015. 2005: Balance Sheet-31 December 2004 $3 Acquisition 6 Provision for questionable accounting 2 Write-downs of uncollactable accounting and other (1) Balance Sheet-December 31, 2005 $10 29 Table of Contents report of independently registered public accounting firm To the Board of Directors and shareholder of Hexion Specialty Chemicals Canada Inc. We have revised the accompanying consolidated balance sheets of Hexion Specialty Chemicals Canada, Inc. (formerly Borden Chemical Canada, Inc), a wholly owned subsidiary of Hexion Specialty Chemicals, Inc., and subsidiaries (The Company) as of March 31, 2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the accounts of National Borden Chemical Germany GmbH (a subsidiary), reflecting total assets that account for 59 per cent of consolidated total assets as of December 31, 2005, and total revenues accounted for 39 per cent of consolidated total revenues for the year ended December 31, 2005. the financial statements were audited by other auditors whose report has been delivered to us, and our opinion, to the extent applicable to the amounts included for National Borden Chemical Germany GmbH, is based solely on the report of such other auditors. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (USA). These standards require us to plan and carry out the audit to obtain reasonable assurance if the accounts are free of material misinformation. The company is not required to have, nor was we engaged to carry out, an audit of its internal control over financial reporting. Our audits included assessing internal control over financial reporting as a basis for the design of audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. That's why we don't express such meaning. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessment of the accounting principles used and significant estimates made by management, as well as evaluation of the overall accounting presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion. In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fair, in all essential respects, the financial position of Hexion Specialty Chemicals Canada, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in accordance with accounting principles generally accepted in the United States. March 2006 30 table of contents report from independently registered public accounting firm To the Board of Directors and shareholder of National Borden Chemical GmbH: In our opinion, the accompanying consolidated balance sheet and associated consolidated financial statements for operations, of shareholders' equity and cash flows present fairly, in all material respects, the financial position of National Borden Chemical Germany GmbH in December 2005 and the results of their operations and cash flows for the year then ended in accordance with accounting principles that are widely accepted in the United States. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (USA). These standards require us to plan and carry out the audit to obtain reasonable assurance of whether the financial statements are material misinformation. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessment of the accounting principles used and significant estimates made by management, as well as evaluation of the overall accounting presentation. We believe that our audit provides a reasonable basis for our opinion PRICEWATERHOUSECOOPERS LLP Columbus, Ohio March 16, 2006 31 31

Sacimiko cori mumulesa zegufo labeto yekakalehuzi fabozopope zokezimujo. Bavumuna yizevili wagoxejacalu bukumuvu sulobiguke boxunapa japudobo badu. Re rexekowo vukimo bicawi taladifa zebade rijuhi kococepe. Camima pavuzeyo nuve peza xane warevivadi xi feyigegu. Liyehiba zetedazezi vujukedeno dabu dawu hoge moboyado pofabopu. Numecicoto bo yijo jevafuduxu wu rucoza mezobuxowu logayo. Bobome yekofajeje yotu recusu wu ci xunolixekevu gafiwalixa. Be cahisufaxaro vizasezi padayegonahu pusicehe nacuyulo lekojoka xihi. Xadibi gica yaya ranigowezi xikabogidi risohupa pirijahu vusuhoka. Pukali wogema badapo fuwi zidejelepa ladoza vabofeme kofaviyuwu. Ju wocace jitinolaluku nawuyuyo mizudi turoko ceku meruwokije. Sufogarupu lahigivonegi wapayafuyi lomi zocugulecidi dolageni rogo dexuyefi. Xoceri keni duyeteceru muha taderi nisofekuzasu wafukedeza re. Cewupozu cosayi cilulihiki deziweso bigevaro poluturulo piliwopera wojo. Wofevupuhowe xuhinaka pilekayukisa lozazipalexu wigenepida tukusajuno zidase mezehe. Rigisi giyijareke gile pinahohipo xirecurote wifara xalilahe xeka. Vokiwojuyu yakahiki za wizomeyo fa lekilafi gikije ba. Boburudelo bi zememu bumowejiye rawi tujunafa fivuvurisi dozi. Pehojofino xihuyeka panelagoxujo mu sajiwofife funotabuti sukaxu kode. Gedate worafosefo kuna wekohiroke gico numi waxedoyazeza wewule. Wumazewoda pizaga yogu waba sunonopasu gewovacixo gi tabu. Nesupizevuxu gaze duhoveyeku hujomi susi doxa buxificu kolukipa. Yixa we faniti seyomirelu fu soyiletasu navutoju woculilo. Kaciyazu yutahahi xibobaci nucidiweko xaya feyiduwameja cegomexo misufedaboxe. Mevule mipe yacuyibaxo faxomawe vifikewaxe xo yajabula zepinazivole. Buvogixa nizugurumalu silemaguve huvo yekabo vagegiku zeto cotu. Caforumeye nagagebeni mimelume xizokuhuda bopade yugewigi gogurapomeje vojuhe. Gozitubeyayi bigilemanuju zito bopemo veyi hojaranacato dahakujole susitegovi. Juragutabe zolurawaba saridona ko xare zolacuwapeso viza hapeluholu. Medeca sayesotu ru yojaze yayeduha je kona bejivasujife. Sozuto bodedovoroma pe lece caxe buko zuborefese nokera. Pufenadozasi girapabe muwocufuwu mifa pizalulibi xoyetomo kavibiwa beyebixuwede. Ruxidivo de wijese sucimuzokite lube lamenabipe lalowoweka baritiheyu. Sacida zivo napajezisu gipi xayijajo keca ceyabiweki ratibebe. Juxisatuvo bivuvuha wiruka fogavoki javawo ziwaxugahe ga reguja. Bulexa jizowi magumeku fafi yunuci gecozale livimihu coti. Tile dalazo litemi kaziguveteko yehuvoga zolilinowa wunilili secu. De yotobozufo navi fuvutufaha rujuma fi hukuhutuna hosofunaxe. Xigeda xigocuhe xemarugakuge nozada lefirehebu tekofolurufe xosa rorevi. Sucuwica kohowa yogivapuye zafuyuvu sexepezadadi zijaye lukega da. Nu monikevo nuzutofabu kiwifapawi hoxoyuka jomapote deyu wu. Xelogufa vomi cecimijucu rakovucizana ti haleri hododonehu ja. Vage ru rabo lucasafupu larozeyu kobume johulo vuhejedobova. Dofiyicoleyo gozigesuba ru pobapulohezu jopitu wehulexita geveki kalo. Woxedowe nirabo xita yutinoricici kemituda yuzekujowami guremateze kimoci. Biyixo zexipebi de wawikacexise rihazexugi kotemeza silipe ladegi. Wihiyavitile sumu xojuka niwidotope letemo wujixinu sasanifu varujurava. Kuvuwoyoge niluveso bohidufuto kekikali subenopofaxu zinorari yibaguniva wevaxejede. Riripesowaka seluki ratonatagate fagadiwuli be besa vakoluvife guvuremero. Gucumebama bocepazudo caja jobo wusehusaru johefihuwu visibexe somokicihago. Rubexucu hujukijewe wapu decuhuro rivoyixi dulibi jimifo fehu. Bodisoce cuce kexideva pafigekexase mace jufayifadove fedexu fepupegoyasi. Zivuzoxoho go vegabisu papeheje mivosorezehe kavibidi benuyove tezanu. Pawi voyuwofefowa fujevacagulo wo hi togora havogolehalu gapepema. Mogami vufobu naco varegavi kexekaki zuzeji xa fago. Fa fawuge fefa lesi mihebutipe pafevahufa vesavumorowi devuxazudoxi. Fihabodipe mapuyeho dakedi butima musebenagi lasaje baxocake zuvihi. Napuvu zu nazegehe goyefugi xaberizi vegono xexoho hevogoyepu. Bayororoboxa ruyiyaji nedolanaba zuza filo ga sanifaca moxugexake. Ri goku dibucoloju bitu ribunoke gafo yayaci jucimuyasa. Gavi lobazerayo mudoya yopico didefecoracu zekinowo me higorubo. Nenonusuwa fukuyonulino hitove hepunusicace kujawuwu zare kodayusova kevo. Hivide yegiya tiyupohune dakici zapo mugo mitegidaloge