

**INTERNATIONAL PAPER FOODSERVICE
(EUROPE) LIMITED**

Report and Financial Statements

31 December 2005



INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Statement of accounting policies	7
Notes to the financial statements	9

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W.A.Wells

W. B. Brennan

A. Lips (resigned 1 August 2005)

M.E.Turner

SECRETARY

S.A. McCandless

REGISTERED OFFICE

Road 3

Winsford Industrial Estate

Winsford

Cheshire

CW7 3RJ

BANKERS

Royal Bank of Scotland plc & ABN Amro

SOLICITORS

Pannone & Partners LLP

AUDITORS

Deloitte & Touche LLP

Chartered Accountants & Registered Auditors

Manchester

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

ACTIVITIES

The principal activity of the company is the manufacture and sale of disposable paper products for the food industry. The directors expect continued growth in the UK and northern European markets leading to improvements in profitability.

DIVIDENDS AND TRANSFERS TO RESERVES

The audited financial statements for the year ended 31 December 2005 are set out on pages 5 to 13. The profit for the year after taxation was £529,170 (2004 - £354,012).

The directors do not recommend payment of a dividend (2004 - £nil).

FUTURE PROSPECTS

The directors continue to expect growth in the UK and northern European Markets leading to improved profitability and increased investment.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

W.A.Wells

W. R. Brennan

A. Lips (resigned 1 August 2005)

M.E.Turner

The directors have no interests required to be disclosed under Schedule 7 of the Companies Act 1985.

DIRECTORS' AND OFFICERS' LIABILITY

Directors' and officers' liability insurance has been purchased by the company during the year.

AUDITORS

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

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



Secretary

30 October 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

We have audited the group and individual company financial statements (the "financial statements") of International Paper Foodservice (Europe) Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of the profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Manchester

31/10/2006

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2005

	Note	2005 £	2004 £
TURNOVER	1	4,248,768	3,649,545
Cost of sales		(3,319,481)	(2,816,674)
GROSS PROFIT		929,287	832,871
Other operating expenses (net)	2	(445,031)	(511,281)
OPERATING PROFIT		484,256	321,590
Interest receivable and similar income	3	47,720	42,546
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	531,976	364,136
Tax on profit on ordinary activities	6	(2,806)	(10,124)
RETAINED PROFIT FOR THE YEAR	13,14	529,170	354,012

All activity has arisen from continuing operations. The company has no recognised gains or losses in either year other than the profit for that year. Accordingly no statement of total recognised gains and losses has been presented.

The accompanying notes form an integral part of this profit and loss account.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

BALANCE SHEET

Year ended 31 December 2005


	Note	2005 £	2004 £
FIXED ASSETS			
Tangible fixed assets	7	627,423	705,141
CURRENT ASSETS			
Stocks	8	410,922	331,652
Debtors	9	701,799	765,404
Cash at bank and in hand		1,524,645	913,749
		2,637,366	2,010,805
CREDITORS: amounts falling due within one year	10	(603,530)	(586,663)
NET CURRENT ASSETS		2,033,836	1,424,142
TOTAL ASSETS LESS CURRENT LIABILITIES		2,661,259	2,129,283
PROVISIONS FOR LIABILITIES AND CHARGES	11	(107,067)	(104,261)
NET ASSETS		2,554,192	2,025,022
CAPITAL AND RESERVES			
Called-up share capital	12	852,550	852,550
Profit and loss account	13	1,701,642	1,172,472
EQUITY SHAREHOLDERS' FUNDS	14	2,554,192	2,025,022

These financial statements were approved by the Board of Directors on

2006.

Signed on behalf of the Board of Directors

Director

 30 OCTOBER 2006

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES

Year ended 31 December 2005

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and the preceding year, is set out below.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Assets under construction	- nil
Plant and machinery	- 5-12 years
Fixtures and fittings	- 3 years

STOCKS

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	- purchase cost on an average cost basis, including transport
Work-in-progress	- cost of direct materials and labour, plus a reasonable proportion and finished goods of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

TAXATION

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Where tax losses are surrendered from fellow group undertakings they are paid for in full. Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

TURNOVER

Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services provided in the normal course of business. Revenue is recognised when, in the opinion of the directors, the company has fulfilled its obligations under the terms of sale and title of the goods has been transferred to the buyer.

OPERATING LEASES

Rentals under operating leases are charged on a straight-line basis over the lease term.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Year ended 31 December 2005

CASH FLOW STATEMENT

As permitted by Financial Reporting Standard No. 1 (Revised 1996), the company has not produced a cash flow statement because its ultimate parent company, International Paper Company has prepared consolidated financial statements which include the financial statements of the company for the year.

PENSION COSTS

Amounts paid by the company into a defined contribution pension scheme are charged to the profit and loss account in the period in which the contributions fall due for payment.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

1 TURNOVER

	2005 £	2004 £
Geographical analysis of turnover by destination:		
United Kingdom	2,557,121	1,971,729
Europe	1,691,647	1,677,816
	<u>4,248,768</u>	<u>3,649,545</u>

All turnover originated in the UK.

2 OTHER OPERATING EXPENSES

	2005 £	2004 £
Administrative expenses	<u>445,031</u>	<u>511,281</u>

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £	2004 £
Investment income	<u>47,720</u>	<u>42,546</u>

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2005 £	2004 £
Staff costs (note 5)	342,180	270,317
Depreciation of owned tangible fixed assets	77,718	79,496
Foreign exchange loss/(gain)	59,232	(13,722)
Operating lease rentals – plant & machinery	15,472	13,723
Auditors' remuneration – audit services	12,455	5,356
– non audit services	-	2,769
	<u></u>	<u></u>

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2005

5 STAFF COSTS

The average monthly number of employees (including executive directors) was:

	2005 Number	2004 Number
Production	8	8
Administration	4	4
	<u>12</u>	<u>12</u>

Their aggregate remuneration comprised:

	2005 £	2004 £
Wages and salaries	303,616	231,543
Social security costs	18,476	24,124
Employers pension contributions and other staff costs	20,088	14,650
	<u>342,180</u>	<u>270,317</u>

Directors' remuneration was borne by other group companies (2004 – same).

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2005 £	2004 £
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	2,806	10,954
Adjustment in respect of prior years	-	(830)
Total deferred tax	<u>2,806</u>	<u>10,124</u>
Total tax on profit on ordinary activities	<u>2,806</u>	<u>10,124</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31 December 2005

6 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2005 £	2004 £
Profit on ordinary activities before tax	531,976	364,136
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2004 – 30%)	159,593	109,241
Effects of:		
Permanent differences	190	190
Capital allowances in excess of depreciation	(2,806)	(10,954)
Group relief received for nil consideration	(156,977)	(98,477)
Current tax charge for the year	-	-

7 TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures and fittings £	Total £
Cost			
At 1 January 2005	911,264	5,856	917,120
Additions	-	-	-
At 31 December 2005	911,264	5,856	917,120
Depreciation			
At 1 January 2005	206,140	5,839	211,979
Charge for the year	77,701	17	77,718
At 31 December 2005	283,841	5,856	289,697
Net book value			
At 31 December 2005	627,423	0	627,423
At 31 December 2004	705,124	17	705,141

8 STOCKS

	2005 £	2004 £
Raw materials and consumables	173,706	201,536
Work-in-progress and finished goods	237,216	130,116
	410,922	331,652

The replacement cost of stock is not materially different to its balance sheet value.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2005

9 DEBTORS

	2005 £	2004 £
Amounts receivable within one year:		
Trade debtors	696,151	763,350
Other debtors	5,648	2,054
	<u>701,799</u>	<u>765,404</u>

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Trade creditors	40,163	13,136
Amount owed to related undertaking	4,748	-
Amounts owed to group undertakings	432,609	545,002
Accruals and deferred income	92,330	27,225
VAT liability	33,680	1,300
	<u>603,530</u>	<u>586,663</u>

Amounts owed to related undertakings consist of a balance outstanding to International Paper Australia.

11 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £
Beginning of year	104,261
Charged to profit and loss account	2,806
End of year	<u>107,067</u>

Deferred taxation provided is as follows:

	Provided 2005 £
Capital allowances in excess of depreciation	<u>107,067</u>

There is no unprovided deferred taxation in either year.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2005

12 CALLED-UP SHARE CAPITAL

	2005 £	2004 £
<i>Authorised</i>		
2,000,000 (2004 – 2,000,000) ordinary shares at £1 each	<u>2,000,000</u>	<u>2,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
852,550 (2004 – 852,550) ordinary shares at £1 each	<u>852,550</u>	<u>852,550</u>

13 PROFIT AND LOSS ACCOUNT

	£
At 1 January 2005	1,172,472
Retained profit for the year	<u>529,170</u>
At 31 December 2005	<u>1,701,642</u>

14 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2005 £	2004 £
Profit for the financial year	529,170	354,012
Opening equity shareholders' funds	<u>2,025,022</u>	<u>1,671,010</u>
Closing equity shareholders' funds	<u>2,554,192</u>	<u>2,025,022</u>

16 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Capital commitments

At the end of the year, capital commitments were £nil (2004 - £nil).

b) Lease commitments

The company has the following annual commitments in respect of operating leases

	2005 £	2004 £
Within one year	6,760	10,584
Between two and five years	<u>15,799</u>	<u>26,472</u>
	<u>22,559</u>	<u>37,056</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2005

17 ULTIMATE CONTROLLING PARTY

The directors regard International Paper Company, a company incorporated in the state of New York, USA as the ultimate parent company and ultimate controlling party. The immediate parent company is IP UK Operations Holdings Limited whose registered office is at Unit 7A, Meadow Airport Industrial Estate, Meadow, West Yorkshire, LS19 7WP.

The largest group of which International Paper Foodservice (Europe) Limited is a member and for which group financial statements are drawn up is that headed by International Paper Company, whose principal place of business is at 2 Manhattanville Road, Purchase, New York 10577, USA. The smallest such group is that headed by International Paper Group (UK) Limited, whose principal place of business is at Inverurie Mills, Inverurie, Aberdeenshire, Scotland AB51 5NR.

As a wholly owned subsidiary of International Paper Company the company has taken the exemption given in Financial Reporting Standard No. 8 "Related party disclosures" not to disclose related party transactions with other group companies.