ARTHUR ANDERSEN

International Paper Company Limited

Accounts 31 December 1996
together with directors' and auditors' reports

Registered number: 497043

Directors' report

For the year ended 31 December 1996

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1996.

Principal activities and business review

The principal activity of the company continues to be that of commission agent for its ultimate parent company and fellow subsidiary undertakings.

Turnover increased by £25,290 (7.3%) during the year and profits for the year were £12,872.

The directors expect the general level of activity to be maintained in 1997.

Results and dividends

Results and recommended transfers to reserves are as follows:

	£
Retained profit at 1 January 1996	189,101
Profit for the year after taxation	12,872
Retained profit at 31 December 1996	201,973

The directors do not recommend the payment of a dividend (1995 - £Nil).

Directors and their interests

The directors who served during the year are as shown below.

W.M. Amick (USA)	(resigned 6 June 1996)
R.D. McIntyre (USA)	
H.G. Fahner	
D.E. Hatton	
R.M. Amen (USA)	(appointed 7 February 1996)

The directors do not have any interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

J.H. Bray

Secretary

Manor House
1 The Crescent
Leatherhead
Surrey
KT22 8DH

2 September 1997

Auditors' report

Manchester

To the Shareholders of International Paper Company Limited:

We have audited the accounts on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's circumstances, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

2 September 1997

Profit and loss account

For the year ended 31 December 1996

	Notes	1996 £	1995 £
Turnover	2	369,810	344,520
Operating expenses	3	(373,206)	(347,101)
Operating loss		(3,396)	(2,581)
Interest receivable and similar income		16,268	18,690
Profit on ordinary activities before taxation	4	12,872	16,109
Tax on profit on ordinary activities	6	-	-
Retained profit for the year		12,872	16,109
Retained profit at 1 January 1996		189,101	172,992
Retained profit at 31 December 1996		201,973	189,101

All activity has arisen from continuing operations. The company has no recognised gains or losses other than the profit for the year.

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

Balance sheet

31 December 1996

	Notes	1996 £	1995 £
Fixed assets			
Tangible assets	7	94,571	70,348
Current assets			
Debtors	8	161,058	158,699
Cash at bank and in hand		282,112	326,850
		443,170	485,549
Creditors: Amounts falling due within one year	9	(333,218)	(364,246)
Net current assets		109,952	121,303
Net assets		204,523	191,651
Capital and reserves			
Called-up share capital	10	2,550	2,550
Profit and loss account		201,973	189,101
Total capital employed		204,523	191,651

Signed on behalf of the Board

D.E. Hatton Director

2 September 1997

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1996

1 Accounting policies

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.

a) Basis of accounting

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

b) Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation.

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:

Leasehold improvements	-	Over the term of the lease
Office machinery	-	5 years
Motor vehicles	-	4 years
Fixtures and fittings	-	5 years

Profits or losses on the disposal of fixed assets are included in the calculation of operating profit.

c) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. The amount of all deferred tax, including that which will probably not reverse, is shown in note 6c.

d) Pension costs

The company provides pensions and other benefits to employees through a defined benefit pension scheme, the assets of which are held in a separate fund by an independent trust.

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of pensionable payroll over the estimated average remaining working life of scheme members.

Notes to accounts (continued)

1 Accounting policies (continued)

e) 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.

f) Operating leases

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

2 Turnover

The company's turnover is derived entirely from commission receivable from group undertakings and is based on operating expenditure incurred in the UK.

3 Operating expenses

All operating expenses are incurred on acting as a commission agent for group undertakings.

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1996 £	1995 £
Depreciation	15,576	15,901
Other operating lease rentals	32,432	37,141
Auditors' remuneration	5,000	5,000
Staff costs (see note 5)	199,700	181,528

In addition, £1,725 (1995 - £2,150) was paid to the company's auditors for other services rendered during the year.

Notes to accounts (continued)

5 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1996	1995
	£	£
Employee costs during the year amounted to:		
Wages and salaries	164,660	164,130
Social security costs	16,888	17,398
Other pension costs (see note 12d)	18,152	-
	199,700	181,528

The average weekly number of persons employed by the company during the year was 5 (1995 - 5).

Directors' remuneration:

Directors' remuneration was paid in respect of directors of the company as follows:

	1996	1995
	£	£
Other emoluments (including pension contributions)	62,183	53,544

The directors' remuneration shown above (excluding pension contributions) included:

	1996	1995
	£	£
Highest paid director	55,509	53,544

No other director received any emoluments from the company in 1996 or 1995.

Notes to accounts (continued)

6 Tax on profit on ordinary activities

a) The tax charge is based on the profit for the year and comprises:

	1996	1995
	£	£
Corporation tax at 33% (1995 - 33%)	8,820	11,004
Group tax losses received free of charge	(8,820)	(11,004)
	-	-

b) Had the company been providing the full amount of deferred taxation, the charge for the year would have been decreased as follows:

	1996	1995
	£	£
Capital allowances	739	1,638

c) Deferred taxation

The full potential deferred tax asset is as follows:

	1996	1995
	£	£
Excess of depreciation over tax allowances	(9,613)	(10,352)
Other timing differences	28,351	28,351
	18,738	17,999

The directors have chosen not to recognise the deferred tax asset on the grounds of prudence.

Notes to accounts (continued)

7 Tangible fixed assets

The movement in the year was as follows:

	Leasehold improvements £	Office machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost					
Beginning of year	70,313	22,129	36,518	13,819	142,779
Additions	-	14,605	40,465	485	55,555
Disposals	-	-	(36,518)	-	(36,518)
End of year	70,313	36,734	40,465	14,304	161,816
Depreciation					
Beginning of year	20,485	21,697	18,510	11,739	72,431
Charge	4,983	433	9,006	1,154	15,576
Disposals	-	-	(20,762)	-	(20,762)
End of year	25,468	22,130	6,754	12,893	67,245
Net book value					
Beginning of year	49,828	432	18,008	2,080	70,348
End of year	44,845	14,604	33,711	1,411	94,571

8 Debtors

The following are included in the net book value of debtors:

	1996 £	1995 £
Amounts falling due within one year:		
Amounts owed by other group undertakings	116,467	137,643
VAT	5,459	7,697
Prepayments and accrued income	39,132	13,359
	161,058	158,699

Notes to accounts (continued)

9 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1996 £	1995 £
Amounts owed to parent company	248,244	248,268
Amounts owed to other group undertakings	51,889	78,280
Other creditors		
- social security and PAYE	4,518	5,319
Accruals and deferred income	28,567	32,379
	333,218	364,246

The amount owed to the parent company is unsecured, non-interest bearing and has no fixed repayment date.

10 Called-up share capital

	1996 £	1995 £
Authorised		
3,000 Ordinary shares of £1 each	3,000	3,000
Allotted, called-up and fully-paid		
2,550 Ordinary shares of £1 each	2,550	2,550

11 Reconciliation of movements in shareholders' funds

	1996 £	1995 £
Retained profit for the year	12,872	16,109
Shareholders' funds at beginning of year	191,651	175,542
Shareholders' funds at end of year	204,523	191,651

12 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, the company had no capital commitments (1995 - £Nil)

b) Contingent liabilities

The company has jointly guaranteed the overdrafts of various fellow subsidiary undertakings. The directors are of the opinion that no liabilities on the guarantees will crystallise.

Notes to accounts (continued)

12 Guarantees and other financial commitments (continued)

c) Lease commitments

The company has annual commitments in respect of operating leases for certain buildings expiring:

	1996	1995
	£	£
After 5 years	32,000	32,000

d) Pension arrangements

All employees of the company with at least one year's service are entitled to become members of the International Paper U.K. Pension Fund, which is open to employees of certain fellow group companies. The fund provides for defined benefits.

Company contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent valuation was at 5 April 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% per annum, that salary increases would average 6.0% per annum and that increases of limited price indexation for pensions would apply

The pension charge for the year was £18,152 (1995 - £Nil).

The most recent actuarial valuation showed that the market value of the scheme's assets was £3,359,000 and that the actuarial value of these assets was sufficient to cover 91% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

13 Cash flow statement

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

14 Ultimate parent company

The company is a subsidiary undertaking of International Paper Company, incorporated in the state of New York, USA.

The largest group of which International Paper Company Limited is a member and for which group accounts 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 Holdings (U.K.) Limited incorporated in Great Britain and registered in England and Wales, whose principal place of business is at Town Lane, Mobberley, Knutsford, Cheshire, WA16 7JL.