

**INTERNATIONAL PAPER FOODSERVICE
(EUROPE) LIMITED**

Report and Financial Statements

31 December 2003



INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

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INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B. Wells
J. M. Ribieras
W. B. Brennan
A. Lips

SECRETARY

S.A. McCandless

REGISTERED OFFICE

Road 3
Winsford Industrial Estate
Winsford
Cheshire
CW7 3RJ

BANKERS

Royal Bank of Scotland

SOLICITORS

Pannone & Partners

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Glasgow

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

ACTIVITIES

The principal activity of the company is the manufacture and sale of disposable paper products for the food industry. The company commenced trading in 2001 after previously being dormant. 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 2003 are set out on pages 5 to 14. The profit for the year after taxation was £476,268 (2002 - £108,177).

The directors do not recommend payment of a dividend (2002 - £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:

B. Wells
J. M. Ribieras
W. B. Brennan
A. Lips

The directors do not hold any options to buy shares in any International Paper UK group company.

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

23 August 2004

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

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;
- 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. 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 financial statements of International Paper Foodservice (Europe) Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet, 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

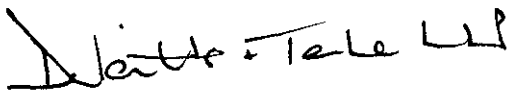
Basis of opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 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 of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Glasgow

23 August 2004

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Note	2003 £	Restated 2002 £
TURNOVER	1	3,667,702	2,562,903
Cost of sales		(2,736,368)	(2,120,137)
GROSS PROFIT		931,334	442,766
Other operating expenses (net)	2	(422,094)	(281,094)
OPERATING PROFIT		509,240	161,672
Interest receivable and similar income	3	12,492	3,412
Interest payable and similar charges	4	-	(8,234)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	521,732	156,850
Tax on profit on ordinary activities	7	(45,464)	(48,673)
Retained profit for the year	15	476,268	108,177

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.

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

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

BALANCE SHEET

Year ended 31 December 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible fixed assets	8	784,637	850,869
CURRENT ASSETS			
Stocks	9	270,842	317,977
Debtors	10	711,685	648,772
Cash at bank and in hand		620,588	264,501
		1,603,115	1,231,250
CREDITORS: amounts falling due within one year	11	(622,605)	(838,704)
NET CURRENT ASSETS		980,510	392,546
TOTAL ASSETS LESS CURRENT LIABILITIES		1,765,147	1,243,415
PROVISIONS FOR LIABILITIES AND CHARGES	12	(94,137)	(48,673)
NET ASSETS		1,671,010	1,194,742
CAPITAL AND RESERVES			
Called-up share capital	13	852,550	852,550
Profit and loss account	14	818,460	342,192
EQUITY SHAREHOLDERS' FUNDS	15	1,671,010	1,194,742

These financial statements were approved by the Board of Directors on 23 August 2004.

Signed on behalf of the Board of Directors



Director

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES

Year ended 31 December 2003

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.

REPRESENTATION OF PRIOR YEAR COMPARATIVES

To enable comparison to be made with the current year results a number of costs have been reclassified from administrative expenses to cost of sales. Management feel that this gives a better representation of the nature of the costs.

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	- 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.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Year ended 31 December 2003

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.

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 2003

1 TURNOVER

	2003 £	2002 £
Geographical analysis of turnover by destination:		
United Kingdom	1,474,389	1,495,694
Europe	2,193,313	1,067,209
	<u>3,667,702</u>	<u>2,562,903</u>

All turnover originated in the UK.

2 OTHER OPERATING EXPENSES (NET)

	2003 £	Restated 2002 £
Administrative expenses	447,486	301,373
Other operating income	(25,392)	(20,279)
	<u>422,094</u>	<u>281,094</u>

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £	2002 £
Investment income	<u>12,492</u>	<u>3,412</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Investment income	-	5,963
Bank overdraft	-	2,271
	<u>-</u>	<u>8,234</u>

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 £	Restated 2002 £
Staff costs (note 6)	109,534	129,070
Depreciation of owned tangible fixed assets	78,362	53,135
Foreign exchange gain	(25,392)	(17,785)
Auditors' remuneration – audit services	6,200	2,768
– non audit services	4,875	-
	<u>168,579</u>	<u>167,188</u>

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2003

6 STAFF COSTS

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

	2003 Number	2002 Number
Production	8	7
Administration	2	1
	<u>10</u>	<u>8</u>

Their aggregate remuneration comprised:

	2003 £	2002 £
Wages and salaries	88,753	118,260
Social security costs	9,260	4,346
Employers pension contributions and other staff costs	11,521	6,464
	<u>109,534</u>	<u>129,070</u>

Directors' remuneration was borne by other group companies.

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2003

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2003 £	2002 £
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	44,425	47,055
Adjustment in respect of prior years	1,039	1,618
Total deferred tax	45,464	48,673
Total tax on profit on ordinary activities	45,464	48,673

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:

	2003 £	2002 £
Profit on ordinary activities before tax	521,732	156,850
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2002 – 30%)	156,520	47,055
Effects of:		
Capital allowances in excess of depreciation	(22,272)	(43,502)
Group relief received for nil consideration	(112,094)	-
Utilisation of tax losses	(22,154)	(3,553)
Current tax charge for period	-	-

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2003

8 TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures and fittings £	Assets under construction £	Total £
Cost				
At 1 January 2003	895,673	5,856	3,461	904,990
Additions	12,130	-	-	12,130
Transfer	3,461	-	(3,461)	-
	<u>911,264</u>	<u>5,856</u>	<u>-</u>	<u>917,120</u>
At 31 December 2003				
Depreciation				
At 1 January 2003	51,254	2,867	-	54,121
Charge for the year	76,410	1,952	-	78,362
	<u>127,664</u>	<u>4,819</u>	<u>-</u>	<u>132,483</u>
At 31 December 2003				
Net book value				
At 31 December 2003	<u>783,600</u>	<u>1,037</u>	<u>-</u>	<u>784,637</u>
At 31 December 2002	<u>844,419</u>	<u>2,989</u>	<u>3,461</u>	<u>850,869</u>

Assets in the course of construction of £ nil (2002 - £3,461) have not been depreciated.

9 STOCKS

	2003 £	2002 £
Raw materials and consumables	181,347	121,129
Work-in-progress and finished goods	89,495	196,848
	<u>270,842</u>	<u>317,977</u>

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

10 DEBTORS

	2003 £	2002 £
Amounts receivable within one year:		
Trade debtors	464,473	415,851
Amounts owed by other group undertakings	231,171	231,171
Other debtors	16,041	1,750
	<u>711,685</u>	<u>648,772</u>

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2003

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Trade creditors	19,290	29,217
Amounts owed to group undertakings	569,919	647,281
Accruals and deferred income	33,396	153,282
VAT liability	-	8,924
	<u>622,605</u>	<u>838,704</u>

12 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation £
Beginning of year	48,673
Charged to profit and loss account	45,464
End of year	<u>94,137</u>

Deferred taxation provided is as follows:

	Provided 2003 £
Capital allowances in excess of depreciation	94,137
	<u>94,137</u>

There is no unprovided deferred taxation in either year.

13 CALLED-UP SHARE CAPITAL

	2003 £	2002 £
<i>Authorised</i>		
2003 (2002 – 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>		
2003 (2002 – 852,550) ordinary shares at £1 each	<u>852,550</u>	<u>852,550</u>

INTERNATIONAL PAPER FOODSERVICE (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2003

14 PROFIT AND LOSS ACCOUNT

	£
At 1 January 2003	342,192
Retained profit for the year	476,268
At 31 December 2003	<u>818,460</u>

15 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2003 £	2002 £
Profit for the financial year	476,268	108,177
Opening equity shareholders' funds	1,194,742	1,086,565
Closing equity shareholders' funds	<u>1,671,010</u>	<u>1,194,742</u>

16 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Capital commitments

At the end of the year, capital commitments were £ nil (2002 - £ nil).

b) Lease commitments

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

	2003 £	2002 £
Within one year	7,020	-
Between two and five years	2,925	-
	<u>9,945</u>	<u>-</u>

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.