Arjo Wiggins Appleton Limited

Directors' report and financial statements for the year ended 31 December 2004

Registered Number 2454830

Directors' report and financial statements for the year ended 31 December 2004

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The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The Company is the holding company of a number of non-trading head office companies.

Review of business and future developments

The Company was a holding company for companies in the Carbonless Paper Operations Division of the Sequana Capital SA (formerly Worms et Cie SA) group of companies and other group intermediate holding companies.

The company traded in line with expectations in the year and the year end financial position of the Company was satisfactory.

On 31 March 2004, a subsidiary company, Arjo Wiggins US Holdings Limited, sold its entire holding in Arjo Wiggins Carbonless Papers Europe Limited to Arjo Wiggins SAS for €193.0m (£132.1m). The consideration was settled through inter company loan accounts. On that date the Company ceased to be a holding company of the Arjo Wiggins Carbonless Papers group of companies.

On 30 September 2004, the Company sold its entire holding in Arjo Wiggins Appleton Insurance Limited to The Wiggins Teape Group Limited for £790,000 cash.

On 30 November 2004, a subsidiary undertaking, Antalis Group Limited, reregistered as an unlimited company and on 2 December 2004 reduced its share capital by Euro 500,000,000 by repaying the 500,000,000 Euro 1 Fixed Rate Redeemable Preference Shares held by the Company.

On 7 December 2004, the Company acquired the beneficial interest in the entire share capitals of Arjo Wiggins North America investments Limited for £499.2m and of Arjo Wiggins US Holdings Limited for £1,235.7m. The consideration for these acquisitions was settled through inter company loan accounts.

On 7 December 2004, five of the Company's direct subsidiaries reregistered as unlimited companies and reduced their share capitals and share premiums by various amounts. Full details are included in the report and accounts for the year ended 31 December 2004 for Arjo Wiggins Appleton Holdings, Arjo Wiggins Europe Holdings, Arjo Wiggins North America Investments, Arjo Wiggins US Holdings and AWA Finance.

Results and dividends

The Company's profit before dividends for the financial year is £300.5m (2003: (£79.8m)). The audited profit and loss account for the year ended 31 December 2004 is set out on page 7.

An interim dividend of £95,233,380 was declared on 8 December 2004 and was paid on 9 December 2004. The directors recommend that no final dividend be declared on the ordinary shares for the year ended 31 December 2004 (2003:£nil).

Results and dividends (continued)

The retained profit for the financial year of £205.3m (2003: loss of £79.8m) has been transferred to reserves.

Subsequent to the year end, a 2005 interim dividend of Euro 315m (£220.5m) was declared on 13 January 2005 and paid on 14 January 2005.

Directors

The directors holding office during the year, together with their dates of appointment or resignation where applicable, were:

A Courteault	Appointed 31 May 2005
A R Laporte	Resigned 3 May 2005
E T Hodgson	Appointed 20 October 2004
T G Howell	Resigned 14 May 2004
P Martinet	Appointed 15 June 2005
C Mountford	
M J Newell	Appointed 30 April 2004
A P Rigby	Appointed 30 April 2004, Resigned 8 November 2004
B de Russe	Resigned 2 June 2005
D G Sawyer	Resigned 5 January 2004
C M Vismara	Resigned 10th February 2005

Directors' interests

At 31 December 2004, no directors of the Company, nor members of their families, as defined by the Companies Act 1985, had any disclosable interest in the shares of the Company or of any other corporate body within the group of companies to which the company belongs.

Policy and practice on payment of creditors

The company's policy on supplier payments is to abide by payment terms whenever possible. The company had no external trade creditors in 2004 (2003: nil).

Charitable and political donations

Donations to UK charitable organisations during the year amounted to £ nil (2003: £850). No contributions were made to political parties in either year.

Auditors

PricewaterhouseCoopers LLP were appointed as auditors to the Company in 2003. Pursuant to Section 386 of the Companies Act 1995, an Elective Resolution has been passed by the Company dispensing with the requirement to appoint auditors annually. Therefore, PricewaterhouseCoopers LLP are deemed to continue as auditors to the Company.

By order of the board

For and on behalf of
Bondlaw Secretaries Limited
Secretary
28/7 2005

Registered Office:
Oceana House
39 – 49 Commercial Road
Southampton
SO15 1GA

Statement of directors' responsibilities for the financial statements

Company law requires the Directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently as set out in the statement of accounting policies. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements 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.

By order of the board

for and on behalf of
Bondlaw Secretaries Limited
Secretary
28/7 2005

Independent auditors' report to the members of Arjo Wiggins Appleton Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including this opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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 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 at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

28 July 2005

Profit and loss account
for the year ended 31 December 2004

Note		2004	2003
		£m	£m
2	Net operating gains/(expenses)	**44.3**	(25.7)
	Operating gain/(loss)	**44.3**	(25.7)
9	Impairment of investment in group undertakings	**(152.4)**	-
	Income from shares in group undertakings	**489.3**	14.0
5	Interest receivable and similar income	**4.9**	0.6
6	Interest payable and similar charges	**(95.9)**	(72.0)
	Profit/(loss) on ordinary activities before taxation	**290.2**	(83.1)
7	Tax on profit/(loss) on ordinary activities	**10.3**	3.3
	Profit/(loss) on ordinary activities after taxation	**300.5**	(79.8)
8	Dividends	**(95.2)**	-
15	**Retained profit/(loss) for the financial year**	**205.3**	(79.8)

The profit for 2004 and the loss in 2003 on ordinary activities arose from continuing operations.

The Company has no recognised gains and losses other than those in the profit and loss account above and, therefore, no separate statement of total recognised gains and losses has been presented. There is no material difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

Balance sheet
as at 31 December 2004

Note		2004 £m	2003 £m
	Fixed assets		
9	*Investments in subsidiary undertakings*	**3.7**	2,266.9
		3.7	2,266.9
	Current assets		
10	Debtors	**451.2**	98.9
	Cash at bank and in hand	**207.6**	2.1
		658.8	101.0
	Creditors: amounts falling due within one year		
11	Other creditors	**(27.6)**	(1,950.4)
		(27.6)	(1,950.4)
	Net current assets/(liabilities)	**631.2**	(1,849.4)
	Total assets less current liabilities	**634.9**	417.5
12	**Provisions for liabilities and charges**	**(144.4)**	(132.8)
	Net assets	**490.5**	284.7
	Equity capital and reserves		
13	Called up share capital	**213.9**	213.9
14	Share premium account	**46.8**	46.4
14	Profit and loss account	**229.8**	24.4
	Equity shareholders' funds	**490.5**	284.7

The financial statements on pages 7 to 21 were approved by the board of directors on 28 July 2005 and were signed on its behalf by

M.J. Newell
Director

1. Principal accounting policies

The financial statements have been prepared on the going concern basis, and in accordance with accounting standards applicable in the United Kingdom. A summary of the principal accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting. No consolidated accounts are submitted, as the company is a wholly owned subsidiary of Sequana Capital S.A. (formerly Worms et Cie S.A.), a company registered in France and is, therefore, exempt under Section 228 (1) of the Companies Act 1985.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the related forward contract rate. All monetary assets and liabilities expressed in foreign currencies, not covered by forward contracts, are retranslated into sterling at rates of exchange ruling at the end of the financial year. Differences between the translated trading transactions and subsequent cash settlements, or retranslated related balances, are taken to the profit and loss account.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pensions and other post retirement benefits

The majority of the Company's employees are members of The Wiggins Teape Pension Scheme, which covers substantially all of the UK employees of the former Arjo Wiggins Appleton Group. The expected cost of providing pensions, as calculated periodically by independent actuaries, is charged to the profit and loss account so as to spread that cost, adjusted for any actuarial valuation deficit or available surplus, over the expected average remaining service lives of current employees. The common group contribution rate is based on pension costs across the participating companies of the former Arjo Wiggins Appleton group as a whole.

Whilst this is a defined benefit scheme, the Company is unable to identify its share of the underlying assets and liabilities of the scheme and the Company accounts for the scheme as a defined contribution scheme, as permitted by SSAP 24 – Accounting for Pension Costs and FRS 17 'Retirement benefits'.

Investments

Investments in subsidiary undertakings and joint ventures are stated at cost, less any provision for impairment in value.

1. Principal accounting policies (continued)

Deferred taxation

Deferred tax is provided in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is measured at the average rates of tax expected to apply in the period when the timing differences are expected to reverse.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2. Net operating gains/(expenses)

Profit/(loss) on ordinary activities before taxation is *stated after (charging)/crediting:*	**2004** **£m**	2003 £m
Staff costs	**(1.4)**	(0.3)
Redundancies	**(0.1)**	(0.1)
Profit/(loss) on disposal of fixed asset investment	**0.6**	(0.1)
Foreign exchange gains/(losses)	**48.6**	(23.7)
Other operating charges	**(4.4)**	(1.5)
	44.3	(25.7)

Audit fees charged in the year amounted to £28,000 (2003 - £27,000).

3. Employee information

Employee numbers:	**2004 Number**	**2003 Number**
Average number of persons employed by the Company (including directors)	9	10

The employment costs were:	***2004*** **£m**	2003 £m
Wages and salaries	**0.2**	0.2
Social security costs	**0.1**	0.1
Other pension costs	**1.1**	-
	1.4	0.3

Based on an actuarial valuation carried out in the year on the unfunded pension scheme, the company has increased its provision for the unfunded pension liability by £1m.

3. Employee information (continued)

The Company is part of a Group pension scheme. The assets of the main defined-benefit scheme are held in a separate trustee-administered fund and are valued regularly by independent, professionally qualified, actuaries according to national regulations and practices. The assumptions reflect average long-term rates and are set against a background of assumed average rates of inflation; it is the relationship between rates, rather than their absolute levels, which determines the valuation and funding requirements.

Method of valuation:	*Projected unit credit*
Date of most recent actuarial valuation:	*31 December 2003*
Market value of scheme assets at date of valuation:	*£414.3m*
Market value of liability of accrued benefit at date of valuation:	*£456.4m*
Date of next actuarial valuation:	*31 December 2006*
Assumed annual rate of:	
Inflation	*2.80%*
Return on investments; in active service/other than active	*6.80%/4.90%*
Increase in pensionable remuneration	*4.10%*
Increase in pensions in payment	*2.70%*
Long-term funding rate	*12.0%.*

For the purpose of these accounts, pension costs are based on the company's contribution rate in accordance with SSAP 24. The contributions paid to The Wiggins Teape Pension Scheme on behalf of the company's employees, which constitute the pension cost for the year, amounted to £48,864 (2003: £35,777). The level contribution rate applied throughout the former Arjo Wiggins Appleton Group in 2004 was 12% (2003: 12%). The level contribution rate for 2005 has been set at 12% and contribution rates for 2006 onwards have been set at 12.0%.

FRS 17 – Retirement benefits

As set out above, The Wiggins Teape Pension Scheme is a defined benefit scheme. The scheme covers the majority of UK Group employees. Only a small proportion of these employees work for the Company and its subsidiary undertakings. The directors believe that the Company is unable to identify its share of the underlying assets and liabilities of the scheme. The Company has, therefore, treated the scheme as a defined contribution scheme, as permitted by FRS 17 'Retirement benefits'.

For FRS 17 disclosure purposes, an actuarial valuation of the Wiggins Teape Pension Scheme has been performed by an independent, professionally-qualified actuary and the fair value of the scheme assets at 31 December 2004 was £447.3m (2003: £414.3m) and the net present value of the liabilities was £451.2m (2003: £435.2m). The net deficit was £3.9m (2003: £20.9m).

4. Directors' emoluments

All directors:	**2004** **£'000**	2003 £'000
Emoluments for all services	-	54
Highest paid director:		
Total emoluments	-	54

Three directors are members of defined benefit pension schemes (2003: three) and no directors are members of defined contribution schemes (2003: nil).

5. Interest receivable and similar income

	2004 **£m**	2003 £m
Interest receivable from group undertakings	**2.6**	0.6
Short-term deposit and other interest	**2.3**	-
	4.9	0.6

6. Interest payable and similar charges

	2004 **£m**	2003 £m
Interest payable to group undertakings	**87.6**	72.0
Other interest payable	**8.3**	-
	95.9	72.0

7. Tax on profit/(loss) on ordinary activities

(a) Analysis of charge in the year	2004 £m	2003 £m
UK corporation tax (credit)		
UK Corporation tax (credit) at 30% (2003: 30%)	**(19.2)**	(25.0)
Less: Group relief surrendered to other group undertakings in excess of consideration receivable	**19.2**	24.3
Prior year adjustment	**(11.3)**	(3.3)
Current tax	**(11.3)**	(4.0)
Deferred tax		
- current year	**0.8**	0.2
- prior year adjustment	**0.2**	0.5
	(10.3)	(3.3)

(b) Factors affecting tax charge for the year	2004 £m	2003 £m
Profit / (loss) on ordinary activities before taxation	**290.2**	(83.1)
Profit / (loss) on ordinary activities multiplied by the standard rate of UK Corporation tax of 30% (2003: 30%)	**87.1**	(24.9)
Effects of:		
Dividends from UK subsidiaries not taxable	**(146.8)**	(4.2)
Impairment of investment in group undertakings not deductible for tax purposes	**45.7**	-
Expenses not deductible for tax purposes	**5.3**	4.3
Non taxable exchange gains (principally on redemption of the €500m preference shares held by Antalis Group Limited)	**(9.5)**	-
Profit on sale of subsidiary not taxable	**(0.2)**	-
Group relief surrendered to other group undertakings in excess of consideration	**19.2**	24.3
Timing differences reflected in deferred tax charge	**(0.8)**	(0.2)
Prior year adjustment	**(11.3)**	(3.3)
Current tax	**(11.3)**	(4.0)

The tax credit in the year is currently impacted by the Group's policy to surrender losses. Should this policy be changed in future years, there will be an impact on the Group's tax charge/credits going forward.

8. Dividends

	2004 £m	2003 £m
Interim dividend	**95.2**	-

9. Investments in subsidiary undertakings

	2004 £m
Cost	
At 31 December 2003	**2,390.2**
Additions in 2004	**1,734.9**
Return of capital by subsidiary companies	**(3,532.6)**
Disposals in 2004 (redemption of €500m Antalis Group Ltd preference shares)	**(313.1)**
At 31 December 2004	**279.4**
Provision for impairment	
At 31 December 2003	**(123.3)**
Provided in 2004	**(152.4)**
At 31 December 2004	**(275.7)**
Net book values	
At 31 December 2003	**2,266.9**
At 31 December 2004	**3.7**

The additions in the year comprised Arjo Wiggins US Holdings Ltd (£1,235.7m) and Arjo Wiggins North American Investments Ltd (£499.2m). The consideration for these acquisitions was settled through inter-company loan accounts.

9. Investments in subsidiary undertakings (continued)

The return of capital by subsidiary companies arose during the restructuring of the company and its subsidiaries and comprised the reductions by the following subsidiaries.

	£m
Arjo Wiggins Appleton Finance Ltd	202.9
Arjo Wiggins Appleton Holdings Ltd	893.5
Arjo Wiggins Europe Holdings Ltd	761.5
Arjo Wiggins US Holdings Ltd	1,235.7
Arjo Wiggins North American Investments Ltd	439.0
Total	**3,532.6**

The additional impairment in 2004 arose as a result of dividends paid by the subsidiary companies during the restructuring process. A breakdown of the effect by subsidiary is as follows.

	£m
Arjo Wiggins Appleton Finance Ltd	26.1
Arjo Wiggins Appleton Holdings Ltd	66.2
Arjo Wiggins North American Investments Ltd	60.1
Total	**152.4**

9. Investments in subsidiary undertakings (continued)

The company's principal direct and indirect subsidiary undertakings in 2004 are set out below.

Name of undertaking and nature of business	Country of incorporation (or registration and operation)	Description of shares held	Proportion of nominal value of issued shares held
Holding companies			
Arjo Wiggins Appleton Holdings *	UK	Ordinary shares	100%
Arjo Wiggins Bermuda (Holdings) Limited *	Bermuda	Class A Common shares	100%
Investment companies			
Arjo Wiggins Appleton (Bermuda) Limited	Bermuda	Class A Common shares	80%
		Class B Preference shares	99.99%
Financing companies			
AWA Finance *	UK	Ordinary shares	100%
Other			
Arjo Wiggins Europe Holdings *	UK	Ordinary shares	100%
Arjo Wiggins North America Investments *	UK	Ordinary shares	100%
Arjo Wiggins US Holdings*	UK	Ordinary shares	100%
Wiggins Teape Pensions Limited*	UK	Ordinary Shares	100%

* Companies held directly

On 20 December 2002, two of the Company's subsidiaries, Wiggins Teape Appleton Limited (renamed Ganos 21 Limited) and Arjo Wiggins Appleton Nominees Limited (renamed Ganos 20 Limited) were put into liquidation. Ganos 21 Limited was subsequently dissolved on 29 October 2003 and Ganos 20 Limited was dissolved on 4 March 2004.

In March 2004, the subsidiary company Arjo Wiggins US Holdings Limited disposed of its entire holding in Arjo Wiggins Carbonless Papers Europe Limited.

10. Debtors

	2004	2003
	£m	£m
Loans owed by group undertakings	**382.7**	10.4
Amounts owed by group undertakings	**3.4**	18.5
Corporation tax debtor	-	0.9
Other debtors	**65.1**	65.0
	451.2	94.8
Amounts falling due after more than one year:		
Pension funds	-	4.1
Total debtors	**451.2**	98.9

In 2004, all intercompany loans were repayable on demand, bearing interest based on market rates.

11. Other creditors

	2004	2003
	£m	£m
Loan owed to parent undertaking	-	66.1
Loans owed to group undertaking	**14.6**	1,861.3
Amounts owed to parent undertaking	-	0.1
Amounts owed to group undertakings	**3.3**	7.7
Overseas taxation	-	9.9
Other creditors	**0.3**	0.2
Other accruals and deferred income	**9.4**	5.1
	27.6	1,950.4

Intercompany loans are repayable on demand and bear interest based on market rates.

12. Provisions for liabilities and charges

	Deferred Taxation £m	Post-retirement benefits £m	Warranty provision £m	EC Fine £m	Total £m
At 31 December 2003	**0.6**	**2.3**	**-**	**129.9**	**132.8**
Charged to profit and loss account	1.0	1.0	-	-	**2.0**
Interest on EC fine	-	-	-	8.3	**8.3**
Reclassify from accruals	-	-	1.3	-	**1.3**
At 31 December 2004	**1.6**	**3.3**	**1.3**	**138.2**	**144.4**

Deferred taxation provision

The deferred tax liability arises on pensions, £nil (2003: £0.4m), other short term timing differences, £1.8m (2003: £0.5m), less an asset in respect of excess depreciation over capital allowances, £0.2m (2003: £0.3m asset)

Post-retirement benefits

This provision is an unfunded unapproved retirement benefit scheme providing defined benefits to members whose earnings exceed the Inland Revenue's earnings cap on pensionable salary. The Company charges the cost of the scheme each period, as advised by the Group's actuary, to the profit and loss account and holds these amounts as a provision in the balance sheet.

EC Fine

The European Commission announced in December 2001 that, following an investigation by it of alleged breaches of EU competition law by European manufacturers of carbonless copying paper, it has decided to impose a fine of Euro 184.27m on the Company and lesser fines on nine other manufacturers of this product.

Whilst provision has been made for the full amount, including interest, the Company believes the decision is unfair and that the amount of the fine is disproportionate. The Company applied to the European Court of First Instance in April 2002 for judicial review of the decision. The application is unlikely to be heard before the second half of 2005.

Warranty provisions

The Company has historically provided warranties and indemnities following the disposal of subsidiary businesses. This provision is expected to be utilised within the next 5 years.

13. *Called up share capital*

Authorised	2004 £m	2003 £m
1,122,400,000 ordinary shares of 25p each	**280.6**	280.6
Total	**280.6**	280.6

Allotted, called up and fully paid		**£m**
As at 31 December 2003:	855,463,528 shares	**213.9**
Allotted during the year:	288,429 shares	**0.0**
As at 31 December 2004: 855,751,957 ordinary shares of 25p each		**213.9**

14. Reserves

	Share premium account £m	**Profit and loss account £m**
At 31 December 2003	46.4	24.4
Share options exercised	0.4	-
Retained profit for the year	-	208.7
At 31 December 2004	**46.8**	**233.1**

15. Reconciliation of movements in shareholders' funds

	2004 £m	2003 £m
Profit/(loss) on ordinary activities after taxation & dividends	**205.3**	(79.8)
Shares issued in the year (including share premium)	**0.5**	1.3
Opening shareholders' funds	**284.7**	363.2
Closing shareholders' funds	**490.5**	284.7

16. Contingent liabilities

As a result of the Company's disposal of its interests in Appleton Papers Inc. ("API") in 2001, the Company and AWAB indemnified API against all liabilities (with the exclusion of a $25m layer between $75m and $100m) incurred by API in connection with the costs of investigation and remediation of, and other costs related to, the contamination with polychlorinated biphenyls ("PCBs") of the Lower Fox River in Wisconsin, USA (the "Fox River Liabilities").

Following the issue of the Proposed Remedial Action Plan ("PRAP") by the Wisconsin Department of Natural Resources ("WDNR") and the US Environmental Protection Agency ("EPA") in October 2001, the Company capitalised AWAB with sufficient funds to enable AWAB to purchase insurance against the potential indemnity liabilities assumed by the Company and AWAB, and sufficient to complete the sale of *Appleton Papers Inc. The Company's investment in AWBH has been written down to* reflect the anticipated amount of this liability.

In January 2003, the WDNR and EPA issued a record of decision ("ROD1") for the upper two reaches of the Lower Fox River and in July 2003 those agencies issued a record of decision relating to the remainder of the river ("ROD2"). Discussions are ongoing with the WDNR, the EPA and other potentially responsible parties ("PRP"s) with respect to determining the likely cost of remediation work and the allocation of such liability amongst the PRPs.

Whilst there are a number of uncertainties as to how the ultimate liability of the Company and AWAB will be determined, after reviewing ROD1 and ROD2 and the analysis produced by API of its potential exposure, the directors believe that the carrying value of AWAB is appropriately stated in the Company's books.

There are other contingent liabilities, arising, in the ordinary course of business, in respect of litigation and guarantees, which the directors believe will not have a significant effect on the financial position of the Company and it's subsidiary undertakings.

In 2003, the company guaranteed the borrowings of a fellow group undertaking in respect of a finance lease obligation. That finance lease has now been terminated and the company no longer acts as a guarantor.

17. Cash flow

The Company, as a wholly-owned subsidiary of Sequana Capital S.A. (formerly Worms et Cie S.A.) which publishes consolidated financial statements in which the Company is included, is exempt under the terms of Financial Reporting Standard (FRS) No. 1 (Revised) from publishing a cash flow statement.

18. Related parties

Related party transactions

Under the exemption granted by Financial Reporting Standard (FRS) 8 'Related Party Disclosures' the company, as a wholly-owned subsidiary of the Sequana Capital (formerly Worms et Cie.) Group which publishes consolidated financial statements in which the Company is included , is not required to, and does not, disclose transactions with fellow members, associated undertakings and joint ventures of that group.

19. Immediate and ultimate parent company

The immediate parent company is Sequana Capital S.A. (formerly Worms et Cie S.A.), a company registered in France. A copy of the consolidated financial statements of that company can be obtained from the Secretary at the following address:

25 Avenue Franklin D. Roosevelt
75008 Paris

Further parent companies for which group accounts are prepared are IFIL – Finanziaria di Partecipazioni S.p.A., and IFI – Istituto Finanziario Industriale S.p.A., both companies are registered in Italy. A copy of the consolidated financial statements of those *companies can be obtained from the Secretary, at the following address:*

Corso Matteotti 26
10121 Turin

The ultimate parent company and controlling party is Giovanni Agnelli e C. Sapaz, a company registered in Italy, acting for the members of the Agnelli family.