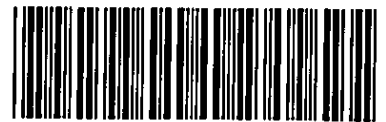


Aylesford Newsprint Holdings Limited
Annual report
for the year ended 31 December 2006

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Aylesford Newsprint Holdings Limited
Annual report
for the year ended 31 December 2006
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Aylesford Newsprint Holdings Limited

Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements of the group for the year ended 31 December 2006

Business review and principal activities

Aylesford Newsprint Holdings ("the group") manufactures prime quality newsprint from 100% recycled newspapers and magazines on a single site at Aylesford, Kent

The results for the group show a pre-tax profit of £13.8 million (2005: £1.7 million). The group has net debt of £7.7 million (2005: £32.0 million). Net cash inflow from operating activities was £33.2 million (2005: £26.7 million).

Research and development

The group's research and development programme places emphasis on product development and on seeking new techniques in the manufacture and application of paper technology.

Business environment

There are three newsprint manufacturers in the UK, with two-thirds of the market being served by imports. Industry statistics show that demand for newsprint remained steady in 2006.

The group differentiates itself as a supplier of newsprint on the quality of its product and service.

Strategy

The group will continue to invest in order to meet the quality demands of its customers, who are themselves investing in new equipment to provide newspapers with high definition colour pictures.

Future outlook

Improved selling prices, together with a reduction in forward gas prices, mean that the industry should return to a more sustainable level of profitability. Within this, the financial position of the company is expected to remain satisfactory.

Principal risks and uncertainties

The key business risks and uncertainties affecting the company are considered to be the balance between supply and demand for newsprint and recovered paper, the cost of gas and employee retention.

Key performance indicators ("KPIs")

	2006	2005	
Operating margin	12.3%	3.2%	This reflects the improved profitability of the group over the past year.
Return on invested capital	8.74%	2.17%	This also reflects the improved profitability of the group over the past year.
Employee retention	8.3%	9.4%	In a normal year between 5% and 10% is regarded as healthy.

Aylesford Newsprint Holdings Limited

Dividends

Dividends of £0 00 (2005 £5 00) per ordinary share amounting to £0 (2005 £10,000,000) have been paid on the A ordinary shares and B ordinary shares after payment of the preference dividend (see note 21)

Directors and their interests

The directors who served during the year and subsequently, were as follows

Executive directors

Mr A S McKendrick (Chief Executive)

Non-executive directors

Mr J R Barton (resigned 25 January 2006)

Mr H E K Eriksson

Miss I Eriksson

Mr A D Farnqvist

Mr D A Hathorn (Chairman)

Mr RW Hunt (appointed 25 January 2006)

Mr ACW King

Mr M Lunabba

Mr K Mitterboeck

None of the directors had any beneficial interest in the shares of the company, or in any subsidiary undertaking. No directors had, at any time during the year, any material interest in a contract with any company in the group.

Employees

Disabled persons

The group gives full consideration to the possibility of employing disabled persons wherever such opportunities exist. Those employees who become disabled are given the opportunity and assistance to continue in their employment or to be trained for other, more suitable positions.

Employee communication

Information on matters of concern to employees is given via a formal process of department briefings to enhance common awareness among employees of factors affecting the group. The Group is committed to maintaining effective two-way communications between all levels of management and employees. Communication methods include a monthly team briefing structure designed to ensure that all employees receive information on Group performance and regular Company newsletters. Information is published both in print and electronically.

In addition, the Group operates two information and consultation forums: the Operating Council for the negotiated workforce and the Joint Consultative Forum (established at the beginning of 2005) for the remainder of its employees.

Political and charitable contributions

During the year the group made various charitable contributions to trade and local bodies totalling £13,537 (2005 £15,588). The group made no political contributions (2005 nil).

Aylesford Newsprint Holdings Limited

Statement of directors' responsibilities

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 the group and of the profit or loss of the group 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 in the year as explained under note 2 'Principal 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 2006 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the next annual general meeting.

The directors have taken all the steps that ought to have been taken as Directors in order to make themselves aware of the information relevant to the Company's auditors in connection with preparing their audit report and have established that the Company's auditors are aware of that information. So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware.

By order of the Board



IR Broxup
Secretary

11 April 2007

Aylesford Newsprint Holdings Limited

Independent auditors' report to the members of Aylesford Newsprint Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of Aylesford Newsprint Holdings Limited for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Group and Company Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Aylesford Newsprint Holdings Limited

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Gatwick

18 April 2007

Aylesford Newsprint Holdings Limited

Consolidated profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Turnover	3	148,032	139,929
Net operating expenses	4	(132,641)	(136,097)
Operating profit	5	15,391	3,832
Interest receivable	8	216	156
Interest payable and similar charges	9	(1,331)	(1,862)
Other finance expenses	20	(476)	(461)
Profit on ordinary activities before taxation		13,800	1,665
Tax on profit on ordinary activities	10	(4,441)	(820)
Profit on ordinary activities after taxation		9,359	845
Dividends	11	0	(10,000)
Profit/(loss) for the financial year	22	9,359	(9,155)

All of the activities of the group are continuing

There is no difference between the profit on ordinary activities before taxation and the profit/(loss) for the financial year stated above, and their historical cost equivalents

Aylesford Newsprint Holdings Limited

Statement of total recognised gains and losses for the year ended 31 December 2006

	Note	2006 £	2005 £
Profit for the financial year		9,359	845
Actuarial gain/(loss) recognised in the pension scheme	20	7,748	(6,608)
Movement on deferred tax relating to pension liability		(2,324)	1,982
Total recognised gains/(losses) for the year		14,783	(3,781)

Aylesford Newsprint Holdings Limited

Balance sheets as at 31 December 2006

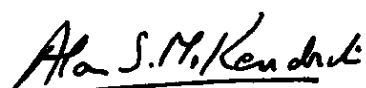
	Note	2006		2005	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	13	170,571	-	186,403	-
Investments	14	-	75,000	-	75,000
		170,571	75,000	186,403	75,000
Current assets					
Stocks	15	9,146	-	8,828	-
Debtors					
- amounts falling due after more than one year	16	3,757	16,000	3,606	35,200
- amounts falling due within one year	16	23,969	1,687	25,023	489
Cash at bank and in hand		1,255	24	7	47
		38,127	17,711	37,464	35,736
Creditors amounts falling due within one year	17	(37,942)	(10,157)	(28,758)	(242)
Net current assets		185	7,554	8,706	35,494
Total assets less current liabilities		170,756	82,554	195,109	110,494
Creditors amounts falling due after more than one year	17	(7,202)	-	(38,152)	(30,000)
Provisions for liabilities and charges	19	(32,997)	(716)	(35,268)	(615)
Net assets excluding pension liability		130,557	81,838	121,689	79,879
Pension liability	20	(7,860)	-	(13,775)	-
Net assets including pension liability		122,697	81,838	107,914	79,879

Aylesford Newsprint Holdings Limited

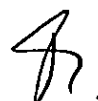
Balance sheets as at 31 December 2006 (continued)

		2006		2005	
	Note	Group	Company	Group	Company
		£'000	£'000	£'000	£'000
Capital and reserves					
Called up share capital	21	100	100	100	100
Share premium account	22	67,962	67,962	67,962	67,962
Profit and loss account	22	54,635	13,776	39,852	11,817
Total shareholders' funds	23	122,697	81,838	107,914	79,879

The financial statements which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes were approved by the board of directors on 11 April 2007 and were signed on its behalf by



A S McKendrick
Director



D A Hathorn
Director

Aylesford Newsprint Holdings Limited
Consolidated cash flow statement
for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	27	33,158	26,703
Returns on investments and servicing of finance			
Interest received		216	156
Interest paid		(1,331)	(1,862)
Net cash outflow from returns on investments and servicing of finance		(1,115)	(1,706)
Taxation			
Corporation tax paid		(3,620)	(3,226)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,128)	(3,629)
Sale of tangible fixed assets		5	10
Net cash outflow for capital expenditure		(4,123)	(3,619)
Equity dividends paid to shareholders		-	(10,000)
Net cash inflow before financing		24,300	8,152
Financing			
Repayment of unsecured loans		(21,000)	(9,000)
Net cash outflow from financing		(21,000)	(9,000)
Increase/(decrease) in net cash in the year	28	3,300	(848)

Aylesford Newsprint Holdings Limited

Notes to the financial statements

for the year ended 31 December 2006

1 Group structure

The company holds 100% of the nominal value of the shares in the following companies, both of which are incorporated in Great Britain

	Ordinary share capital £	Consideration paid £	Principal activity
Aylesford Newsprint Services Limited	338,032	1	Production of power and steam supply
Aylesford Newsprint Limited	75,000,000	75,000,000	Production of newsprint

2 Principal accounting policies

Accounting convention

These financial statements are based on the historical cost convention and have been prepared on a consistent basis in accordance with applicable Accounting Standards. A summary of the more important accounting policies is set out below

Basis of consolidation

The consolidated accounts include the financial statements of the company and all of its subsidiary companies for the year ended 31 December 2006

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. The cost of plant and machinery includes interest and financing costs paid on funds specifically taken out to finance assets in the course of construction.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over their estimated useful life. Freehold buildings are amortised over their estimated useful lives. Estimated useful lives for buildings range up to 20 years. The depreciation rates for plant and equipment range from 5% to 33% per annum. Freehold land is not depreciated. Assets in the course of construction are not depreciated until they become operational.

Capitalisation of finance costs and interest

Interest and financing costs relating to large scale projects are capitalised and amortised over the life of the assets.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks and work in progress

Stocks and work in progress are stated at the lower of production cost or net realisable value. In general, cost is determined on a first in, first out basis, in the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Aylesford Newsprint Holdings Limited

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date and resulting exchange differences are dealt with in the profit and loss account. Exchange differences arising on transactions during the year are also dealt with in the profit and loss account.

Turnover

Turnover comprises the invoiced value of goods and services supplied net of value added tax and trade discounts.

Related party transactions

The group has exercised the exemption under Financial Reporting Standard No 8 (Related Party Transactions) and has not disclosed transactions between group companies.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred using the incremental liability method because of timing differences between the treatment of certain items for taxation and for accounting purposes.

Pensions

The company operates a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates.

The company has also operated a defined contribution pension scheme since April 2003, open to all new joiners. Costs in respect of pensions are charged in arriving at the operating profit. Any outstanding or prepaid contributions at the balance sheet date are included in creditors or debtors respectively.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Grants

Grants relating to specific capital expenditure are treated as deferred income and are credited to the profit and loss account over the useful economic life of the asset.

Other grants are credited to the profit and loss account when received.

Aylesford Newsprint Holdings Limited

3 Segmental analysis

	Group	
	2006	2005
	£'000	£'000
Turnover – sales by destination		
Paper - UK	107,140	93,898
- Rest of Europe	17,556	22,957
- Rest of World	7,429	6,412
Power and steam supplies – UK	14,878	14,797
Recovered paper	1,029	1,865
	148,032	139,929

An analysis of sales by origin is not provided as all sales are made from the UK

	2006	2005
	£'000	£'000
Operating profit		
Paper - UK	11,313	2,678
- Rest of Europe	1,854	653
- Rest of World	785	181
Power and steam supplies – UK	1,571	421
Recovered paper	(132)	(111)
	15,391	3,822

Costs relating to paper and power and steam sales have been attributed to each segment as a percentage of turnover

An analysis of net assets attributable to each class of business has not been provided as the group's manufacturing of newsprint and supplying of power and steam are managed on a unified basis at the Aylesford site. In the opinion of the directors such an analysis will not assist users in their understanding of the financial statements

Aylesford Newsprint Holdings Limited

4 Net operating expenses

	Group	
	2006	2005
	£'000	£'000
Change in stocks of finished goods and work in progress	(201)	632
Other operating income	(101)	(127)
Raw material and consumables	70,289	69,429
Other external charges	26,610	30,408
Employment costs (note 7)	16,297	15,551
Depreciation of owned fixed assets (note 13)	19,951	19,492
Impairment of Margetts Pit assets	-	2,356
Decommissioning costs of Margetts Pit	746	(694)
Amortisation of Government grants	(950)	(950)
	132,641	136,097

5 Operating profit

Operating profit is stated after charging/(crediting)

	Group	
	2006	2005
	£'000	£'000
Staff costs (note 7)	16,297	15,551
Depreciation charge for the year		
- Owned fixed assets (note 13)	19,951	19,492
- Impairment on Margetts Pit assets (note 13)	-	2,356
Decommissioning costs of Margetts Pit	746	(694)
Amortisation of Government grants	(950)	(950)
Operating lease rentals - Motor Vehicles	-	5
Exchange gains	159	424
Research and development costs	566	564
Loss/(profit) on disposal of fixed assets	4	(10)

Aylesford Newsprint Holdings Limited

Services provided by the group's auditor and network firms

During the year the group obtained the following services from the group's auditor at costs as detailed below

	Group	
	2006	2005
	£'000	£'000
Audit services		
Fees payable to company auditor for the audit of parent company and	13	13
Non – audit services		
The audit of company's subsidiaries pursuant to legislation	37	37
Actuarial services	398	253
Other services	15	-
	463	303

6 Directors' emoluments

	Group	
	2006	2005
	£'000	£'000
Aggregate emoluments	322	276
Highest paid director		
Aggregate emoluments	243	205
Aggregate amounts due under long term incentive schemes in respect of qualifying services	30	24
Defined benefit pension schemes		
Accrued pension at end of year	49	47

Retirement benefits are accruing to one director (2005 one) under a defined benefit scheme

Aylesford Newsprint Holdings Limited

7 Employee information

The average monthly number of persons employed by the group including executive directors is analysed below

	Group		Company	
	2006 Number	2005 Number	2006 Number	2005 Number
Management/administration	98	105	2	3
Production	256	251	-	-
Selling and distribution	19	17	-	-
	373	373	2	3

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Staff costs (for the above persons)				
Wages and salaries	13,415	12,602	301	301
Social security costs	1,252	1,108	38	36
Other pension costs	1,630	1,841	129	75
Total direct costs of employment	16,297	15,551	468	412

8 Interest receivable

	Group	
	2006 £'000	2005 £'000
Total bank interest receivable	216	156

Aylesford Newsprint Holdings Limited

9 Interest payable and similar charges

	Group	
	2006	2005
	£'000	£'000
Other interest		
On bank loans repayable by instalments	1,326	1,857
Other	5	5
	1,331	1,862

10 Tax on ordinary activities

(a) Analysis of tax charge for the year

Group	2006	2005
	£'000	£'000
Tax on profit for the year		
UK corporation tax on profits for the year	3,460	1,884
Consortium relief payable	3,460	1,944
Adjustment in respect of previous periods	(195)	(579)
Total current tax	6,725	3,249
Deferred tax		
Origination and reversal of timing differences (ACA and other)	(2,680)	(2,656)
Adjustment in respect of previous periods	185	484
Pension cost relief in excess of pension charge	211	(257)
Total deferred tax	(2,284)	(2,429)
Tax charge for the year	4,441	820

Aylesford Newsprint Holdings Limited

(b) Factors affecting tax charge for the year

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	13,800	1,665
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2005 30%)	4,140	500
Effects of		
Expenses not deductible for tax purposes	50	403
Depreciation in excess of capital allowances	3,092	2,905
Other timing differences	106	(237)
Capital items expensed	28	-
Payment for consortium relief	3,460	1,944
Government grant amortisation	(285)	-
Consortium relief claimed	(3,460)	(1,944)
Adjustment in respect of previous periods	(195)	(579)
Pension cost relief in excess of pension charge	(211)	257
Current tax charge for the year	6,725	3,249

(c) Factors affecting future tax charges

Future tax charges are only likely to be affected by capital allowances

11 Dividends

	Group	
	2006 £'000	2005 £'000
Dividend – Interim dividend paid:		
Equity – Ordinary 'A' shares £nil per share (2005 £5 00 per share)	-	5,000
Equity – Ordinary 'B' shares £nil per share (2005 £5 00 per share)	-	5,000
	-	10,000

Preference shares are entitled to a preference fixed cumulative dividend at an annual rate of 0 0001 per cent on the nominal amount

Aylesford Newsprint Holdings Limited

12 Profit for the year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. Of the profit for the year of £9,359,000 (2005 £845,000) after taxation, a profit of £1,959,000 (2005 £12,044,000) is dealt with in the financial statements of the company.

13 Tangible assets

Group	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2006	100,121	281,197	381,318
Additions	466	3,662	4,128
Disposals	(67)	(1,983)	(2,050)
At 31 December 2006	100,520	282,876	383,396
Depreciation			
At 1 January 2006	40,080	154,835	194,915
Charge for the year	3,892	16,059	19,951
Disposals	(67)	(1,974)	(2,041)
At 31 December 2006	43,905	168,920	212,825
Net book amount			
At 31 December 2006	56,615	113,956	170,571
At 31 December 2005	60,041	126,362	186,403

Plant and equipment includes work in progress totalling £1,175,000 (2005 £1,403,000). Plant and equipment also includes interest and financing charges relating to the PM14 project which have been capitalised as follows:

	2006 £'000	2005 £'000
Interest		
Balance brought forward	4,539	4,993
Amortisation charge for year	(455)	(454)
Balance carried forward	4,084	4,539
Financing charges		
Balance brought forward	5,625	6,187
Amortisation charge for year	(563)	(562)
Balance carried forward	5,062	5,625

Capitalised interest and financing charges are amortised over 20 years, the estimated useful life of the PM14 project.

Aylesford Newsprint Holdings Limited

14 Investments

	2006		2005	
	Group £	Company £	Group £	Company £
Investments in subsidiaries at cost (note 1)	-	75,000,001	-	75,000,001

15 Stocks

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Raw materials and consumables	4,671	-	4,724	-
Finished goods	4,475	-	4,104	-
	9,146	-	8,828	-

16 Debtors

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due after more than one year				
Trade debtors	3,757	-	3,606	-
Amounts owed by group undertakings	-	16,000	-	35,200
Amounts falling due within one year:				
Trade debtors	20,714	-	24,013	-
Amounts owed by group undertakings	-	1,472	-	489
Other debtors	1,022	215	320	-
Prepayments and accrued income	2,233	-	690	-
	23,969	1,687	25,023	489

Included within trade debtors is £3,606,000 due from SCA Packaging. This amount relates to the recharge of the estimated closure and post closure costs of Margetts Pit.

Aylesford Newsprint Holdings Limited

17 Creditors

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year.				
Overdrafts/Loans Short Term (see note 18)	9,000	9,000	2,052	-
Trade creditors	4,985	29	2,626	-
Amounts owed to group undertakings	-	387	-	19
Corporation tax payable	1,876	388	288	-
Amounts owed to parent undertaking	3,460	-	1,944	-
Other taxation and social security	3	-	390	-
VAT payable	1,455	-	1,302	-
Other creditors	95	95	201	-
Accruals and deferred income	16,118	258	19,005	223
Government grants	950	-	950	-
	37,942	10,157	28,758	242
Amounts falling due after more than one year				
Bank loans (see note 18)	-	-	30,000	30,000
Government grants (see below)	7,202	-	8,152	-
	7,202	-	38,152	30,000

Amounts owed to parent undertakings relate to consortium tax relief obtained during the year from SCA Packaging (see note 10)

	Group	
	2006 £'000	2005 £'000
Government grants due after more than one year		
At 1 January 2006	8,152	9,102
Amortisation for the year	(950)	(950)
Net grant at 31 December 2006	7,202	8,152

The grant received as a contribution towards the cost of the PM14 project is being amortised over 20 years, the estimated life of the related assets

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18 Loans

Bank loans are as follows

	Company	
	2006	2005
	£'000	£'000
Unsecured loans		
HSBC loan – long term	-	30,000
HSBC loan – short term	9,000	
	9,000	30,000

The HSBC loan provides a facility of up to £60,000,000, repayable in July 2007. Interest on the HSBC loan is variable based on LIBOR, being charged at periodic intervals throughout the term of the loan.

19 Provisions for liabilities and charges

Group	Unfunded pension arrangement £'000	Margetts Pit £'000	Deferred taxation £'000	Total £'000
1 January 2006	615	7,124	27,529	35,268
Charged/(credited) in the year	101	122	(2,494)	(2,271)
31 December 2006	716	7,246	25,035	32,997

Unfunded pension arrangement

For details on the unfunded pension arrangement see note 20

Margetts Pit

The provision for Margetts Pit comprises of closure and post closure costs. The decommissioning costs of Margetts Pit relate to the costs that will be incurred by the company in filling the pit with inert materials in order to change the contour of the landfill site. The rate of fill of the pit is uncertain therefore it is not possible to give a certain date as to when the provision will be utilised. Post closure costs comprise mainly of costs associated with monitoring the pit when the site has been fully decommissioned.

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The group's full potential liability to deferred tax is as follows

	2006 £'000	2005 £'000
Accelerated capital allowances	27,529	29,700
Other short term timing differences	(2,494)	(2,171)
Undiscounted provision for deferred tax	25,035	27,529
Provision at start of year	27,529	29,700
Deferred tax credit in profit and loss account for the year	(2,494)	(2,171)
Provision at end of year	25,035	27,529

Company	Unfunded pension arrangement £'000
1 January 2006	615
Credited in the year	101
31 December 2006	716

20 Pension obligations

The group operates a defined benefit scheme in the UK, the Aylesford Newsprint Pension Plan and an unfunded pension arrangement for one of the directors. The assets of the Aylesford Newsprint Pension Plan are held in trust, separately from those of the group.

A full actuarial valuation of the Aylesford Newsprint Pension Plan was carried out at 6 April 2002 using the projected unit method. At the date of that actuarial valuation the market value of the assets of £29,600,000 was sufficient to cover 107% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The regular contributions of the group and employees were 11.5% and 6% respectively. In addition, in the light of the fall in equity markets worldwide during 2002, and the consequent deterioration in the Plan funding position, the group has been paying an additional 4% of pensionable salaries per annum, which will continue until the deficit is removed (or the position is reviewed at the next valuation).

The valuation was carried out by a qualified independent actuary and was calculated in accordance with the requirements of FRS 17. The major assumptions used by the actuary were:

	2006 Per annum %	2005 Per annum %	2004 Per annum %
Rate of increase in salaries	4.25	4.25	4.25
Rate of increase in pensions in payment	2.75	2.75	2.75
Discount rate	4.97	4.66	6.00
Inflation assumption	2.75	2.75	2.75

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The assets in the scheme and the expected rate of return were

	Long term rate of return expected at 31 December 2006	Value at 31 December 2006	Long term rate of return expected at 31 December 2005	Value at 31 December 2005	Long term rate of return expected at 31 December 2004	Value at 31 December 2004
	%	£'000	%	£'000	%	£'000
Equities	6.30	30,737	6.10	27,367	6.50	21,771
Bonds	4.70	11,509	4.40	9,500	4.75	7,852
Cash	5.00	132	4.50	123	4.75	150
Property	5.90	4,578	5.60	3,649	6.00	3,190
Annuity policy held by trustees	5.00	253	4.66	289	5.40	224
		47,209		40,928		33,187

The following amounts at 31 December 2006 were measured in accordance with the requirements of FRS 17

At 31 December 2006	Aylesford Newsprint Pension Plan £'000	Unfunded arrangement £'000	Group £'000
Total market value of assets	47,209	-	47,209
Present value of scheme liabilities	(58,437)	(716)	(59,153)
Deficit	(11,228)	(716)	(11,944)
Related deferred tax asset	3,368	215	3,583
Net pension liability	(7,860)	(501)	(8,361)

The following amounts at 31 December 2005 were measured in accordance with the requirements of FRS 17

At 31 December 2005	Aylesford Newsprint Pension Plan £'000	Unfunded arrangement £'000	Group £'000
Total market value of assets	40,928	-	40,928
Present value of scheme liabilities	(60,607)	(615)	(61,222)
Deficit	(19,679)	(615)	(20,294)
Related deferred tax asset	5,904	184	6,088
Net pension liability	(13,775)	(431)	(14,206)

The unfunded pension liability is shown within provisions for liabilities and charges

Group contributions during the year were £2,517,000 (2005 £1,259,000) The contribution rate for the next year is 21.5%

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The following amounts have been recognised in the performance statements in the year to 31 December 2006 under the requirements of FRS 17 in respect of the Aylesford Newsprint Pension Plan

	2006 £'000	2005 £'000
Operating profit		
Current service costs	(2,047)	(1,655)
Impact of curtailments	709	-
Total operating charge	(1,338)	(1,655)
Other finance expenses:		
Expected return on pension scheme assets	2,366	2,024
Interest on pension scheme liabilities	(2,842)	(2,485)
Net return	(476)	(461)
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	1,945	4,844
Experience gains and losses arising on the scheme liabilities	1,016	(280)
Changes in assumptions underlying the present value of the scheme	4,787	(11,172)
Actuarial loss recognised in STRGL	7,748	(6,608)

The curtailment gain relates to a change of rules in the UK to permit employees to take a greater proportion of their pension entitlement as cash on retirement (£709,000)

	2006 £'000	2005 £'000
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(19,679)	(12,214)
Movement in the year		
Current service cost	(1,338)	(1,655)
Contributions	2,517	1,259
Other finance expenses	(476)	(461)
Actuarial gain/(loss)	7,748	(6,608)
Deficit in scheme at end of the year	(11,228)	(19,679)

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Details of experience gains and losses	2006	2005
Difference between the expected and actual return on scheme assets		
Amount (£'000)	1,945	4,844
Percentage of scheme assets	4.1%	11.8%

Experience gains and losses on scheme liabilities

Amount (£'000)	1,016	(280)
Percentage of the present value of the scheme liabilities	1.7%	(0.6%)

Total amount recognised in statement of total recognised gains and losses

Amount (£'000)	7,748	(6,608)
Percentage of the present value of the scheme liabilities	13.3%	(14.6%)

The main plan closed to new entrants with effect from 6 April 2003. Under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The group has no exposure to any other post retirement benefit obligations.

Defined contribution scheme

The pension cost contributions charged during the year relating to the defined contribution scheme amounted to £41,844 (2005: £27,371). There were no contributions prepaid or accrued at the year end (2005: nil).

21 Share capital

	Company	
	2006	2005
	£	£
Authorised, allotted, called up and fully paid		
1,000,000 ordinary A shares of £0.01 each	10,000	10,000
1,000,000 ordinary B shares of £0.01 each	10,000	10,000
8,000,300 preference shares of £0.01 each	80,003	80,003
	100,003	100,003

Ordinary A and B shares carry one vote each and have the same rights to dividends and amounts accruing during a winding-up.

The preference shares are redeemable at the option of the company at the price of the nominal value together with any premium paid-up and the amount of any unpaid entitlement to the preferential dividend.

Preference shares are entitled to a preference fixed cumulative dividend at an annual rate of 0.0001 per cent on the nominal amount.

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During a winding-up, the holder of preference shares is entitled to repayment of the amount paid-up after repayment of the capital paid-up on the ordinary A and B shares

Preference shares carry no votes

22 Statement of movement on reserves

Group	Profit and loss account £'000	Share premium £'000
At 1 January 2006	39,852	67,962
Profit/(loss) for the financial year	9,359	-
Movement on deferred tax relating to pension scheme	(2,324)	
Actuarial gain on pension scheme	7,748	-
Profit and loss reserve	54,635	67,962

Company	Profit and loss account £'000	Share premium £'000
At 1 January 2006	11,817	67,962
Retained profit for the year	1,959	-
At 31 December 2006	13,776	67,962

23 Reconciliation of movements in shareholders' funds

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Opening shareholders' funds	107,914	79,879	121,695	77,835
Profit on ordinary activities after taxation	9,359	1,959	845	12,044
Dividends	-	-	(10,000)	(10,000)
Movement on deferred tax relating to pension	(2,324)		1,982	
Actuarial gain/(loss) on pension scheme	7,748	-	(6,608)	-
Closing shareholders funds	122,696	81,838	107,914	79,879

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24 Contingent liabilities

The directors are not aware of any material contingent liabilities as at 31 December 2006 (2005 nil)

25 Capital commitments

Capital commitments authorised by the directors are as follows

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Authorised and contracted for but not provided for	1,722	-	2,109	-

26 Financial commitments

At 31 December 2006 the group had no annual commitments under non-cancellable operating leases (2005 nil)

27 Reconciliation of consolidated operating profit to net cash inflow from operating activities

	2006 £'000	2005 £'000
Operating profit	15,391	3,822
Depreciation of tangible fixed assets	19,951	19,492
Impairment of Margetts Pit assets	-	2,356
Amortisation of Government grants	(950)	(950)
Difference between pension charge and cash contributions	(1,179)	396
(Profit)/loss on disposal of tangible fixed assets	4	(10)
Increase/(decrease) in stocks	(318)	632
Increase/(decrease) in trade debtors	3,300	(4,098)
Increase/(decrease) in other debtors	(702)	314
Increase/(decrease) in long term debtors	(151)	-
Increase/(decrease) in prepayments and accrued income	(1,543)	241
Increase/(decrease) in trade creditors	2,359	(193)
(Decrease)/increase in other creditors	(106)	(66)
Increase/(decrease) in VAT	153	(388)

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	2006	2005
	£'000	£'000
Decrease/(increase) in accruals and deferred income	(2,887)	5,748
(Decrease)/increase in taxation and social security	(387)	(24)
Increase/(decrease) in long term provisions	223	(569)
Net cash inflow from operating activities	33,158	26,703

28 Reconciliation of net cash flow to movement in net debt

	2006		2005	
	£'000	£'000	£'000	£'000
Increase/(decrease) in net cash in the year	3,300		(848)	
Cash outflow from decrease in debt	21,000		9,000	
Change in net debt resulting from cash		24,300		8,152
Movement in net debt in the year		24,300		8,152
Net debt at 1 January		(32,045)		(40,197)
Net debt at 31 December		(7,745)		(32,045)

29 Analysis of net debt

	1 January 2006 £'000	Cash flow £'000	Other non- cash changes	31 December 2006
Net cash				
(Overdrafts)/cash at bank and in hand	(2,045)	3,300	-	1,255
Debts falling due within one year				
HSBC loan	(30,000)	21,000	-	(9,000)
	(32,045)	24,300	-	(7,745)

Analysed in balance sheet

	2006	2005
	£'000	£'000
Cash at bank and in hand	1,255	7
Overdrafts/HSBC Loan – short term	(9,000)	(2,052)
Other bank loans – long term	-	(30,000)
	(7,745)	(32,045)

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30 Related party disclosures

Aylesford Newsprint Holdings Limited is a joint venture between SCA Forest Products AB and Mondi Société Anonyme (formerly Mondi Europe SA)

The key transactions and balances during the year with companies that were related to the group under the terms of Financial Reporting Standard No 8 are as follows

Transactions

Management charges

The group incurred an annual management charge of £200,000 (2005 £200,000), £100,000 each (2005 £100,000) from Mondi Paper (UK) Limited and SCA Forest Products AB for the provision of central services

Water

Various companies in the SCA group that are situated on the Aylesford site purchased water on a commercial basis from the group during the year amounting to £401,000 (2005 £405,000)

Ash sales

Sales of Ash amounting to £103,000 (2005 £56,000) were made to Tarmac Topblock Limited, an Anglo American group company

Power and steam operations

Various companies in the SCA group which are situated on the Aylesford site purchased power and steam on a normal commercial basis from the company during the year amounting to £15,140,000 (2005 £12,675,000)

Sales of waste paper

Sales of waste paper amounting to £314,000 (2005 £139,000) were made to SCA Recycling (UK) Limited during the year

Purchases of waste paper

The group has an agreement with SCA Recycling (UK) Limited to purchase waste paper on normal commercial terms. During the year, purchases from SCA Recycling (UK) Limited amounted to £4,142,000 (2005 £3,658,000)

Purchase of packaging material

The group purchased packaging materials from Mondi Packaging Orebro AB (formerly Frantschach Coating Sweden AB), a Mondi group company, amounting to £33,000 (2005 £749,000). A further £373,000 (2005 £311,000) of packaging material was purchased from SCA Packaging Limited

Commission payments

Commission receivable on sales made by Aylesford Newsprint Limited on behalf of various SCA companies amounted to £2,000 (2005 £13,000). During the year £296,000 (2005 £328,000) was payable in commission on sales made by various European SCA companies on behalf of the group

Research and development

The group has been charged an amount of £551,000 (2005 £520,000) by SCA in respect of research and development costs. A further £7,000 (2005 £7,000) was recharged from SCA Forest Products AB relating to market research

Shipping and haulage

Shipping costs of £884,000 (2005 £908,000) were payable to SCA Transforest AB in the year. Haulage costs of £126,000 (2005 £147,000) were payable to SCA Transforest Agencies in the year

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A further £17,000 (2005 £12,000) was paid to SCA Transport Limited in relation to haulage costs in the year

Rates

Rates of £1,200,000 (2005 £1,173,000) were recharged from SCA Packaging Limited – Site Services in the year

Software costs

Software costs of £32,000 (2005 £73,000) were recharged from SCA Graphic Sundsvall AB in the year

Insurance costs

The group has incurred insurance costs of £598,000 (2005 £538,000) in the year, £299,000 (2005 £269,000) from SCA AB and £299,000 (2005 £269,000) from a Mondi group company

Balances outstanding at 31 December 2006

Trade debtors

Trade debtors of £24,319,000 (2005 £27,619,000) include an amount of £4,854,000 (2005 £5,703,000) due from SCA group companies, and £36,000 (2005 £nil) due from Mondi Soci   Anonyme (formerly Mondi Europe SA)

Trade creditors

Included within trade creditors of £4,985,000 (2005 £2,626,000) is an amount of £565,000 (2005 £693,000) which is owed to related companies. This amount has arisen mainly from the purchase of waste paper by Aylesford Newsprint Limited from SCA Recycling (UK) Limited to whom £531,000 (2005 £691,000) is payable. £34,000 (2005 £2,000) is payable to Mondi group companies.

31 Ultimate controlling party

The group is a joint venture between SCA Forest Products AB and Mondi Soci   Anonyme (formerly Mondi Europe SA), therefore the directors do not consider there to be an ultimate controlling party.