

**Annual report
for the year ended 31 December 1996**

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**Directors' report
for the year ended 31 December 1996**

The directors present their report and the audited financial statements of the company for the year ended 31 December 1996.

Principal activities

The principal activity of the company is to produce and market newsprint from recycled fibre. As from 1 May 1996 this included the direct procurement of waste paper for recycling, which had previously been supplied by another group company at a fixed price.

Results and review of activities

Production of newsprint on the new paper machine, PM 14, increased steadily through 1996 and continued to exceed the equipment suppliers' predictions.

The price of newsprint peaked in February 1996 and declined throughout the rest of the year. At the start of 1997 prices have stabilised as worldwide stocks of newsprint have declined. The order book for the year has been filled despite the strengthening of the pound.

Dividends

No dividends were paid during the year (1995: Nil). The directors do not recommend the payment of a dividend.

Directors and their interests

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

Mr R A S Hampton	(Chairman)
M S K T Martin-Lof	
Mr A J Trahar	
Dr U R Frolander	(resigned 29 January 1997)
Mr S G Haglund	
Mr G J Perrins	
Mr R S Robertson	
Mr D A Hathorn	
Mr A H Heinzl	
Mr A S McKendrick	
Mr H J Loe	(resigned 5 September 1996)

None of the directors had any beneficial interest in the shares of the company, its holding company, or in any other subsidiary undertaking.

No directors had, at any time during the year, any material interest in a contract with the company.

Research and development

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

Employees

Disabled persons

The company 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 company.

Auditors

A resolution to re-appoint the Auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the board



**D B Charlesworth
Secretary
Newsprint House
Bellingham Way
Aylesford
Kent ME20 7DL**

16 May 1997

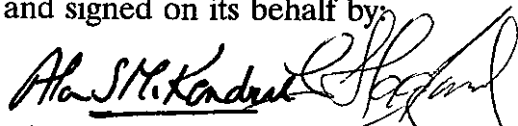
Statement of directors' responsibilities

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 and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

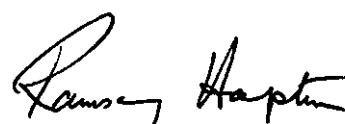
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Approved by the Board on
and signed on its behalf by:


A S McKendrick


S G Haglund


R S Robertson


R A S Hampton

Report of the auditors to the members of Aylesford Newsprint Limited

We have audited the financial statements on pages 5 to 19.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

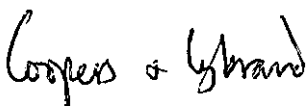
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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.

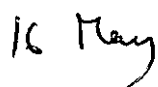
Opinion

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



Coopers & Lybrand

Chartered Accountants and Registered Auditors
Maidstone



1997

Profit and loss account for the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover - continuing operations	2	150,573	60,370
Rent receivable		-	173
		<hr/>	<hr/>
		150,573	60,543
Net operating expenses - continuing operations	3	(101,455)	(39,047)
		<hr/>	<hr/>
Operating profit - continuing operations	4	49,118	21,496
Interest receivable	7	696	317
Interest payable and similar charges	8	(15,830)	(7,803)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		33,984	14,010
Taxation	9	(502)	564
		<hr/>	<hr/>
Retained profit for the year		33,482	14,574
		<hr/>	<hr/>

The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

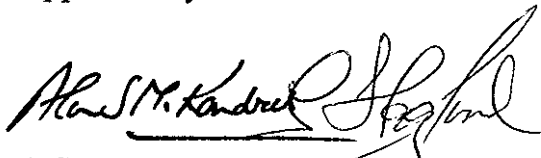
A statement of movement on reserves is set out in note 17.

Balance sheet at 31 December 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	10	292,378	296,131
Current assets			
Stocks	11	6,758	4,787
Debtors: amounts falling due after one year	12	3,897	5,716
Debtors: amounts falling due within one year	12	51,801	27,877
Cash at bank and in hand		10,952	5,130
		<u>73,408</u>	<u>43,510</u>
Creditors: amounts falling due within one year	13	(29,732)	(20,884)
Net current assets		<u>43,676</u>	<u>22,626</u>
Total assets less current liabilities		<u>336,054</u>	<u>318,757</u>
Creditors: amounts falling due after more than one year	13	(214,100)	(230,246)
Provisions for liabilities and charges	15	-	(39)
Net assets		<u>121,954</u>	<u>88,472</u>
Capital and reserves			
Share capital	16	75,000	75,000
Profit and loss account	17	46,954	13,472
Shareholders' funds - equity interests	20	<u>121,954</u>	<u>88,472</u>

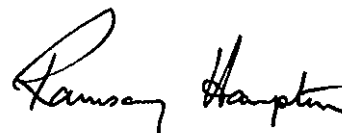
Approved by the Board on 16 May 1997

and signed on its behalf by:


A S McKendrick

S G Haglund


R S Robertson


R A S Hampton

The notes on pages 7 to 19 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 1996

1 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.

Basis of preparation

Since the company is a wholly owned subsidiary and the cash flows of the company are included in the consolidated group cash flow statement of Aylesford Newsprint Holdings Limited, the company is exempt under the terms of Financial Reporting Standard Number 1 from presenting a cash flow statement.

Depreciation

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

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 cost and 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.

Foreign currencies

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

Turnover

Turnover comprises the invoiced value of goods and services supplied by the company exclusive of Value Added Tax and trade discounts.

Taxation

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

Account is taken of the effect of timing differences between the accounting and tax treatment of certain items of revenue and expense to the extent that it is probable that a liability will arise or that an asset will be realised in the foreseeable future.

Pensions

The regular cost of providing benefits is charged to the profit and loss account over the employees' service lives on the basis of a consistent percentage of pensionable pay. Variations from regular cost are spread over the remaining service lives of current employees. Such costs are calculated by reference to actuarial valuations. The difference between these costs and the amount paid to the scheme is recognised as a provision or prepayment in the balance sheet.

Research and development

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

Deferred costs PM14

Certain costs incurred in the preparation of PM14 which although not capital in nature will benefit the company over a period of several years have been deferred and are being written off over five years.

Grants

Grants related to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the useful life of the asset.

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

2 Turnover

	1996 £'000	1995 £'000
Paper sales by destination:		
UK	104,648	46,400
Rest of Europe	42,235	11,529
Rest of World	3,690	2,441
	<u>150,573</u>	<u>60,370</u>

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

3 Net operating expenses

	1996 £'000	1995 £'000
Change in stocks of finished goods and work in progress	(1,971)	(1,617)
Project costs capitalised	-	(901)
Other operating income	(703)	(236)
Raw materials and consumables	51,420	18,607
Other external charges	25,688	11,624
Employment costs	11,643	6,226
Depreciation of fixed assets	15,594	5,929
Rental charged to group company	(585)	(293)
Amortisation of PM14 deferred costs	1,317	108
Amortisation of Government grants	(948)	(400)
	<u>101,455</u>	<u>39,047</u>

4 Operating profit

	1996	1995
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation charge on owned fixed assets	15,594	5,929
Rental recharged to group company	(585)	(293)
Amortisation of PM14 deferred costs	1,317	108
Amortisation of Government grant	(948)	(400)
Auditors' remuneration:		
Audit services	45	40
Operating lease rentals:		
Hire of plant and machinery	-	1
Hire of motor vehicles	209	61
Exchange losses	(128)	157
Research and development costs	530	303
Profit on disposal of fixed assets	(18)	(1)

£130,126 (1995: £9,275) was payable to the company's auditors in respect of non-audit services.

5 Directors' emoluments

	1996	1995
	£	£
Emoluments (including pension contributions and benefit in kind)	439,493	138,230
Directors' emoluments excluding pension contributions are as follows:		
Emoluments of the chairman	173,080	Nil
Emoluments of the highest paid director	173,080	57,287

The companies in the Aylesford Newsprint Holdings Group are managed together and it is not practicable to allocate the emoluments of the directors between the companies.

The number of directors (excluding those whose duties were carried out wholly or mainly outside the United Kingdom) whose emoluments (excluding pension contributions) were within the ranges:

	1996 No	1995 No
£10,001 to £15,000	-	1
£50,001 to £55,000	-	1
£55,000 to £60,000	-	1
£85,001 to £90,000	1	-
£135,001 to £140,000	1	-
£170,001 to £175,000	1	-
	-	-
	3	3
	=	=

6 Employee information

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

	1996 No	1995 No
Management/administration	139	144
Production	289	302
Selling and distribution	22	19
	—	—
	450	465
	==	==

	1996 £'000	1995 £'000
Staff costs (for the above persons)		
Wages and salaries	11,223	6,043
Social security costs	945	469
Other pension costs	235	282
	—	—
Total direct costs of employment	12,403	6,794
Project costs capitalised	-	(901)
Salary and wage costs recharged to group company	(760)	(568)
	—	—
	11,643	5,325
	==	==

7 Interest receivable

	1996 £'000	1995 £'000
Bank interest receivable	696	439
Bank interest receivable capitalised in PM14 project	-	(122)
	<u>696</u>	<u>317</u>

8 Interest payable and similar charges

	1996 £'000	1995 £'000
On bank loan repayable within one year	1,208	4,740
On loans from group undertakings repayable in more than five years	14,614	3,059
On outstanding balances with related companies	-	1
Other external sources	8	3
	<u>15,830</u>	<u>7,803</u>
Interest charged to the profit and loss account		
On bank loan repayable within one year	-	3,667
On loan from group undertaking repayable in more than five years	-	868
	<u>-</u>	<u>4,535</u>
Interest capitalised in PM14 project		

9 Tax on profits on ordinary activities

	1996 £'000	1995 £'000
Deferred tax charge/(credit) to profit and loss account	502	(564)

There is no charge to current tax (1995: Nil) on the profit for the year due to the availability of group relief for which no payment will be made.

10 Tangible assets

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 1996	23,169	294,596	317,765
Additions	454	11,387	11,841
Disposals	-	(77)	(77)
Transfer of construction in progress	59,230	(59,230)	-
At 31 December 1996	82,853	246,676	329,529
Depreciation			
At 1 January 1996	1,986	19,648	21,634
Charge for the year	4,708	10,886	15,594
Disposals	-	(77)	(77)
At 31 December 1996	6,694	30,457	37,151
Net book value			
At 31 December 1996	76,159	216,219	292,378
At 1 January 1996	21,183	274,948	296,131

Plant and equipment includes interest and financing charges related to the PM14 project which have been capitalised as follows:

	Note	1996 £'000	1995 £'000
Interest			
Balance brought forward		4,949	536
Interest payable	8	-	4,535
Less: interest receivable	7	-	(122)
Balance carried forward		4,949	4,949
Financing			
Balance brought forward		15,350	6,404
Financing charges		-	8,946
Balance carried forward		15,350	15,350

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

11 Stocks

	1996 £'000	1995 £'000
Raw materials and consumables	2,120	1,858
Finished goods	4,638	2,929
	<u>6,758</u>	<u>4,787</u>

12 Debtors

	1996 £'000	1995 £'000
Amounts falling due after one year:		
Deferred costs PM14 (see below)	3,835	5,152
Deferred taxation (note 15)	62	564
	<u>3,897</u>	<u>5,716</u>

Amounts falling due within one year:		
Trade debtors	16,934	15,781
Amounts owed by group undertakings	31,680	7,921
Other debtors	1,036	1,145
Prepayments and accrued income	836	1,715
Deferred costs PM14 (see below)	1,315	1,315
	<u>51,801</u>	<u>27,877</u>

Costs incurred for the preparation of PM14 are deferred and are being written off over five years from December 1995.

	1996 £'000	1995 £'000
Deferred costs of PM14		
At 1 January	6,467	-
Intra-group transfer of business	-	3,926
Incurred during the year	-	2,649
	<u>6,467</u>	<u>6,575</u>
Total costs at 31 December	6,467	6,575
Amortisation for the year	(1,317)	(108)
	<u>5,150</u>	<u>6,467</u>

13 Creditors

	1996 £'000	1995 £'000
Amounts falling due within one year:		
Trade creditors	5,754	7,746
Amounts owed to group undertakings (see below)	9,552	223
Other creditors	1,670	1,231
Tax and social security	298	331
Accruals and deferred income	11,510	10,603
Government grants (see below)	948	750
	<u>29,732</u>	<u>20,884</u>
Amounts falling due after more than one year:		
Other loans	-	150,000
Amounts owed to group undertakings (see below)	199,396	66,396
Government grants (see below)	14,704	13,850
	<u>214,100</u>	<u>230,246</u>

The amounts owed to group undertakings of £208,948,000 (1995: £66,619,000) comprise:

- (a) PM14 project funding loans totalling £158,000,000 (1995: £25,000,000) from Aylesford Newsprint Holdings Limited. Interest is paid at a rate of 7% pa and for the year to 31 December 1996 amounted to £11,714,000. This loan has no fixed repayment date and the directors do not anticipate repayment being required within one year.
- (b) Business transfer 1995 loan of £41,396,000 (1995: £41,396,000) from Aylesford Newsprint Services Limited. The interest is paid at 7% pa and for the year to 31 December 1996 amounted to £2,900,000. This loan has no fixed repayment date and the directors do not anticipate repayment being required within one year.
- (c) Loan interest accrual of £1,459,000 (1995: £Nil).
- (d) Short term creditor of £8,093,000 (1995: £223,000).

	1996 £'000	1995 £'000
Government grants		
At 1 January	14,600	9,000
Received during the year	2,000	6,000
	<hr/>	<hr/>
At 31 December	16,600	15,000
Amortisation for the year	(948)	(400)
	<hr/>	<hr/>
Net grant at 31 December	15,652	14,600
	<hr/>	<hr/>

A grant under "Assistance for Exceptional Projects" of £17,000,000 has been received as at 31 December 1996 as a contribution towards the cost of the PM14 project. The grant is being amortised over 20 years, the estimated life of the related assets.

14 Other loans

	1996 £'000	1995 £'000
Bank loan from a consortium of banks repayable by instalments commencing with 1 year to completion within 5 years	-	150,000
	<hr/>	<hr/>

The loan was repaid in full in February 1996 being fully refinanced by an intra-group loan at 7.5% interest from Aylesford Newsprint Holdings Limited supported by additional loans equally from the joint venture shareholder companies.

15 Provisions for liabilities and charges

	1996 £'000	1995 £'000
Asbestos provision		
At 1 January	39	-
Acquired in transfer of business	-	39
Utilised in year	(39)	-
	<hr/>	<hr/>
At 31 December	-	39
	<hr/>	<hr/>

Deferred taxation

The company's potential deferred tax liability is £15,932,000 (1995: £3,891,000) in respect of accelerated capital allowances. An asset of £62,000 (1995: £564,000) is recognised in the financial statements.

16 Share capital

	1996	1995
Authorised:		
Ordinary shares of £1 each:		
Nominal value	<u>£100,000,000</u>	<u>£100,000,000</u>
Number	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of £1 each:		
Nominal value	<u>£75,000,000</u>	<u>£75,000,000</u>
Number	<u>75,000,000</u>	<u>75,000,000</u>

17 Statement of movement on reserves

	Profit and loss account £'000
At 1 January 1996	13,472
Profit for the year	33,482
At 31 December 1996	<u>46,954</u>

18 Contingent liabilities

The directors are not aware of any material contingent liabilities as at 31 December 1996.

19 Pensions

From 1 September 1994 the group has had its own pension scheme which is of the funded defined benefit type and its assets are held in a separate trustee administered fund.

Particulars of the valuation are contained in the accounts of the holding company, Aylesford Newsprint Holdings Limited.

The total pension cost for the company for the year was £212,000 (1995: £282,000).

20 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
Opening shareholders' funds	88,472	73,898
Profit for the year	33,482	14,574
Closing shareholders' funds	<u>121,954</u>	<u>88,472</u>

21 Capital commitments

	1996 £'000	1995 £'000
Capital commitments authorised by the directors are as follows:		
Authorised and contracted for	<u>1,243</u>	<u>6,488</u>

22 Financial commitments

	1996 £'000	1995 £'000
At 31 December 1996 the company had annual commitments under long term operating leases as follows:		
On land and buildings:		
Expiring within one year	<u>15</u>	<u>30</u>
Other plant and machinery:		
Expiring within one year	145	57
Expiring after one and within five years	91	116
	<u>236</u>	<u>173</u>

23 Ultimate holding company

The company's ultimate holding company is Aylesford Newsprint Holdings Limited registered in England and Wales, with the registered office at:

Newsprint House
Bellingham Way
Aylesford
Kent ME20 7DL

Copies of the consolidated accounts of the group are available from the company secretary at the above address.

24 Related party disclosures

Aylesford Newsprint Limited is a wholly owned subsidiary of Aylesford Newsprint Holdings Ltd, a joint venture between SCA UK Holdings Limited and Mondi Paper (UK) Limited.

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

Transactions**Purchase of waste paper**

The group has an agreement with SCA Recycling UK Ltd to purchase waste paper on normal commercial terms. During the year, purchases from SCA Recycling UK Ltd amounted to £9,240,000.

Commission payments

Commission receivable on sales made by Aylesford Newsprint Limited on behalf of various SCA companies amounted to £314,000 during the year. £604,000 was payable in commission on sales made by various European SCA companies on behalf of the company.

Balances outstanding at 31 December 1996**Trade debtors**

Trade debtors of £ 16,934,000 include an amount of £ 678,000 due from SCA group companies and an amount of £68,000 due from Mondi Paper Div SA.

Trade creditors

Included within trade creditors of £5,754,000 is an amount of £2,217,000 which is owed to related companies. The balance has arisen mainly from the purchase of waste paper by Aylesford Newsprint Ltd from the SCA group, particularly SCA Recycling (UK) Ltd to whom £1,433,000 of the balance is payable.