

**Annual report  
for the year ended 31 December 1997**

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## **Directors' report for the year ended 31 December 1997**

The directors present their report and the audited financial statements of the company for the year ended 31 December 1997.

### **Principal activities**

The principal activity of the company is the production of newsprint made from recycled fibre. The group is a joint venture between SCA Graphic Paper and Mondi Minorco Paper producing and selling newsprint manufactured from recycled fibre on two paper machines, PM14 and PM13, at the Aylesford site.

### **Results and review of activities**

Production of newsprint on the new paper machine, PM 14, increased steadily through 1997 and continued to exceed the equipment suppliers' predictions.

UK prices stabilised in 1997 but have decreased slightly at the start of 1998 because of the strength of Sterling. The order book for 1998 has been filled and sales have made a strong start.

### **Dividends**

During the year the directors declared a dividend of £14,000,000 (1996: £nil).

### **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-Löf	
Mr A J Trahar	
Mr S G Haglund	(resigned 16 May 1997)
Mr G J Perrins	
Mr R S Robertson	(resigned 16 May 1997)
Mr D A Hathorn	
Mr A H Heinzl	(resigned 16 May 1997)
Mr A S McKendrick	
Mr O Terland	(appointed 16 May 1997)
Mr D A Färnquist	(appointed 16 May 1997)
Mr F K J Jackson	(appointed 16 May 1997)
Dr U Frölander	(resigned 29 January 1997)
Mr H E K Eriksson	(appointed 29 January 1997)

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.

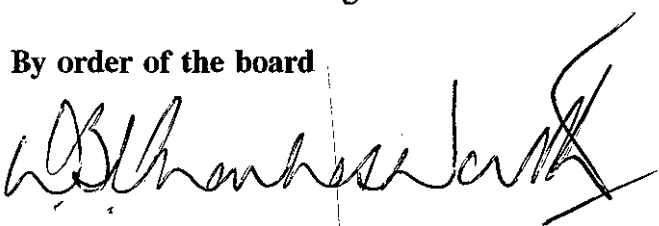
### Employee communication

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

28 April 1998


## **Statement of directors' responsibilities**

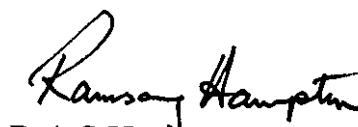
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- 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 28 April 1998 and signed on its behalf by:

  
A S McKendrick

  
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.

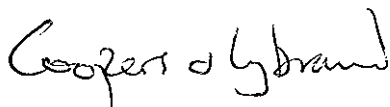
### **Basis of opinion**

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 1997 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  
28 April 1998

# Profit and loss account for the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Turnover - continuing operations	2	129,348	150,573
Rent receivable		2,578	-
		<u>131,926</u>	<u>150,573</u>
Net operating expenses - continuing operations	3	(102,550)	(101,455)
Operating profit - continuing operations	4	29,376	49,118
Interest receivable	7	732	696
Interest payable and similar charges	8	(12,172)	(15,830)
		<u>17,936</u>	<u>33,984</u>
Profit on ordinary activities before taxation		17,936	33,984
Taxation	9	2,331	(502)
		<u>20,267</u>	<u>33,482</u>
Profit on ordinary activities after taxation		20,267	33,482
Dividends	10	(14,000)	-
		<u>6,267</u>	<u>33,482</u>
Retained profit for the year		<u>6,267</u>	<u>33,482</u>

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.

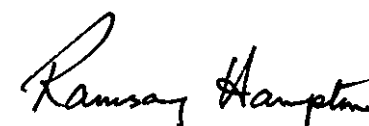
A statement of movement on reserves is set out in note 17.

# Balance sheet at 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>Fixed assets</b>			
Tangible assets	11	281,084	292,378
<b>Current assets</b>			
Stocks	12	5,673	6,758
Debtors: amounts falling due after one year	13	2,520	3,897
Debtors: amounts falling due within one year	13	20,399	51,801
Cash at bank and in hand		2,145	10,952
		<u>30,737</u>	<u>73,408</u>
Creditors: amounts falling due within one year	14	(35,598)	(29,732)
<b>Net current (liabilities)/assets</b>		<u>(4,861)</u>	<u>43,676</u>
<b>Total assets less current liabilities</b>		<u>276,223</u>	<u>336,054</u>
<b>Creditors: amounts falling due after more than one year</b>	14	(148,002)	(214,100)
Provisions for liabilities and charges	15	-	-
<b>Net assets</b>		<u>128,221</u>	<u>121,954</u>
<b>Capital and reserves</b>			
Share capital	16	75,000	75,000
Profit and loss account	17	53,221	46,954
<b>Shareholders' funds - equity interests</b>	20	<u>128,221</u>	<u>121,954</u>

Approved by the Board on 28 April 1998 and signed on its behalf by:

  
A S McKendrick

  
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 1997**

**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.

## **Related party transactions**

The company 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/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

	1997 £'000	1996 £'000
Paper sales by destination:		
UK	89,647	104,648
Rest of Europe	37,382	42,235
Rest of World	2,319	3,690
	<u>129,348</u>	<u>150,573</u>

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

### Operating profit by destination

	1997 £'000	1996 £'000
UK	20,360	34,137
Rest of Europe	8,490	13,777
Rest of World	526	1,204
	<u>29,376</u>	<u>49,118</u>

Costs relating to the sale of paper have been attributed to each segment as a percentage of turnover.

## 3 . Net operating expenses

	1997 £'000	1996 £'000
Change in stocks of finished goods and work in progress	1,085	(1,971)
Other operating income	204	(703)
Raw materials and consumables	46,061	51,420
Other external charges	26,262	25,688
Employment costs	12,268	11,643
Depreciation of fixed assets	16,305	15,594
Rental charged to group company	-	(585)
Amortisation of PM14 deferred costs	1,315	1,317
Amortisation of Government grants	(950)	(948)
	<u>102,550</u>	<u>101,455</u>

**4 Operating profit**

	1997 £'000	1996 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Depreciation charge on owned fixed assets	16,305	15,594
Rental recharged to group company	(2,849)	(585)
Amortisation of PM14 deferred costs	1,315	1,317
Amortisation of Government grant	(950)	(948)
Auditors' remuneration:		
Audit services	46	45
Operating lease rentals:		
Hire of motor vehicles	228	209
Exchange losses	271	(128)
Research and development costs	458	530
Loss/(profit) on disposal of fixed assets	30	(18)
	<u>          </u>	<u>          </u>

£61,000 (1996: £130,126) was payable to the company's auditors in respect of non-audit services.

**5 Directors' emoluments**

	1997 £	1996 £
Aggregate emoluments	291,886	414,938
<b>Highest paid director</b>		
Aggregate emoluments	151,085	173,080
	<u>          </u>	<u>          </u>
	1997 £	1996 £
Defined Benefit Pension Schemes:		
Accrued pension at end of year	79,755	76,440
	<u>          </u>	<u>          </u>

Retirement benefits are accruing to two directors under a defined benefit scheme.

## 6 Employee information

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

	1997 No	1996 No
Management/administration	131	139
Production	287	289
Selling and distribution	20	22
	<u>438</u>	<u>450</u>
	<u>438</u>	<u>450</u>
	1997 £'000	1996 £'000
Staff costs (for the above persons)		
Wages and salaries	11,029	11,223
Social security costs	1,102	945
Other pension costs	822	235
	<u>12,953</u>	<u>12,403</u>
Total direct costs of employment	12,953	12,403
Salary and wage costs recharged to group company	(685)	(760)
	<u>12,268</u>	<u>11,643</u>
	<u>12,268</u>	<u>11,643</u>

## 7 Interest receivable

	1997 £'000	1996 £'000
Bank interest receivable	732	696
	<u>732</u>	<u>696</u>

## 8 Interest payable and similar charges

	1997 £'000	1996 £'000
On bank loan repayable within one year	-	1,208
On loans from group undertakings repayable in more than five years	12,171	14,614
Other external sources	1	8
	<u>12,172</u>	<u>15,830</u>
Interest charged to the profit and loss account	12,172	15,830
	<u>12,172</u>	<u>15,830</u>

## 9 Tax on profits on ordinary activities

	1997 £'000	1996 £'000
Payment for prior year losses surrendered by way of consortium relief	(2,393)	-
Deferred tax charge/(credit) to profit and loss account	62	502
	<u>(2,331)</u>	<u>502</u>

There is no charge to current tax (1996: £nil) on the profit for the year due to the availability of group relief for which no payment will be made.

## 10 Dividends

	1997 £'000	1996 £'000
Dividend - Final dividend		
- Ordinary shares 18.67p/share	14,000	-

## 11 Tangible assets

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 1997	82,853	246,676	329,529
Additions	1,740	3,339	5,079
Disposals	-	(126)	(126)
<b>At 31 December 1997</b>	<b>84,593</b>	<b>249,889</b>	<b>334,482</b>
<b>Depreciation</b>			
At 1 January 1997	6,694	30,457	37,151
Charge for the year	3,546	12,759	16,305
Disposals	-	(58)	(58)
<b>At 31 December 1997</b>	<b>10,240</b>	<b>43,158</b>	<b>53,398</b>
<b>Net book value</b>			
At 31 December 1997	74,353	206,731	281,084
At 31 December 1996	76,159	216,219	292,378

Plant and equipment includes work in progress totalling £4,018,000. Plant and equipment also includes interest and financing charges related to the PM14 project which have been capitalised as follows:

	1997 £'000	1996 £'000
<b>Interest</b>		
Balance brought forward	8,615	8,615
Amortisation charge for year	(444)	-
Balance carried forward	<u>8,171</u>	<u>8,615</u>
<b>Financing charges</b>		
Balance brought forward	10,671	10,671
Amortisation charge for year	(550)	-
Balance carried forward	<u>10,121</u>	<u>10,671</u>

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

## 12 Stocks

	1997 £'000	1996 £'000
Raw materials and consumables	2,755	2,120
Finished goods	2,918	4,638
	<u>5,673</u>	<u>6,758</u>

### 13 Debtors

	1997 £'000	1996 £'000
<b>Amounts falling due after one year:</b>		
Deferred costs PM14 (see below)	2,520	3,835
Deferred taxation (note 15)	-	62
	<u>2,520</u>	<u>3,897</u>
<b>Amounts falling due within one year:</b>		
Trade debtors	15,812	16,934
Amounts owed by group undertakings	2,099	31,680
Other debtors	724	1,036
Prepayments and accrued income	449	836
Deferred costs PM14 (see below)	1,315	1,315
	<u>20,399</u>	<u>51,801</u>

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

	1997 £'000	1996 £'000
<b>Deferred costs of PM14</b>		
Balance brought forward at 1 January 1997	5,150	6,467
Amortisation for the year	(1,315)	(1,317)
	<u>3,835</u>	<u>5,150</u>

Balance carried forward at 31 December 1997

# 14 Creditors

	1997 £'000	1996 £'000
<b>Amounts falling due within one year:</b>		
Trade creditors	3,552	5,754
Amounts owed to group undertakings (see below)	4,652	9,552
Other creditors	1,628	1,670
Tax and social security	310	298
Accruals and deferred income	10,506	11,510
Government grants (see below)	950	948
Proposed dividend	14,000	-
	<u>35,598</u>	<u>29,732</u>
<b>Amounts falling due after more than one year:</b>		
Amounts owed to group undertakings (see below)	132,250	199,396
Government grants (see below)	15,752	14,704
	<u>148,002</u>	<u>214,100</u>

The amounts owed to group undertakings of £136,902,000 (1996: £208,948,000) comprise:

- (a) PM14 project funding loans totalling £132,250,000 (1996: £158,000,000) from Aylesford Newsprint Holdings Limited. These consist of a £107,250,000 loan and a £25,000,000 loan on which interest is payable at a rate of 7.5% and 7% respectively. For the year to 31 December 1997 interest paid amounted to £10,978,339. The loans have no fixed repayment dates. However, the loans have been treated as long term because the directors do not anticipate repayment being required within one year.
- (b) Loan interest accrual of £nil (1996: £1,459,000).
- (c) Short term creditor of £4,652,000 (1996: £8,093,000).
- (d) During the year the business transfer 1995 loan of £41,396,000 from Aylesford Newsprint Services Limited was repaid.



	1997 £'000	1996 £'000
<b>Government grants</b>		
At 1 January	15,652	14,600
Received during the year	2,000	2,000
	<hr/>	<hr/>
At 31 December	17,652	16,600
Amortisation for the year	(950)	(948)
	<hr/>	<hr/>
Net grant at 31 December	16,702	15,652
	<hr/>	<hr/>

A grant under "Assistance for Exceptional Projects" of £19,000,000 has been received as at 31 December 1997 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.

## 15 Deferred taxation

The company's potential deferred tax liability is £25,847,000 (1996: £15,932,000) in respect of accelerated capital allowances. An asset of £nil (1996: £62,000) is recognised in the financial statements.

## 16 Share capital

	1997	1996
<b>Authorised:</b>		
Ordinary shares of £1 each:		
Nominal value	£100,000,000	£100,000,000
	<hr/>	<hr/>
Number	100,000,000	100,000,000
	<hr/>	<hr/>
<b>Issued and fully paid:</b>		
Ordinary shares of £1 each:		
Nominal value	£75,000,000	£75,000,000
	<hr/>	<hr/>
Number	75,000,000	75,000,000
	<hr/>	<hr/>

# **17 Statement of movement on reserves**

	Profit and loss account £'000
At 1 January 1997	46,954
Profit for the year	6,267
	<hr/>
At 31 December 1997	53,221
	<hr/>

# **18 Contingent liabilities**

The directors are not aware of any material contingent liabilities as at 31 December 1997.

# **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 £782,000 (1996: £212,000).

# **20 Reconciliation of movements in shareholders' funds**

	1997 £'000	1996 £'000
Opening shareholders' funds	121,954	88,472
Profit for the year	20,267	33,482
Dividends	(14,000)	-
	<hr/>	<hr/>
Closing shareholders' funds	128,221	121,954
	<hr/>	<hr/>

# **21 Capital commitments**

	1997 £'000	1996 £'000
Capital commitments authorised by the directors are as follows:		
Authorised and contracted for	956	1,243
	<hr/>	<hr/>

## 22 Financial commitments

	1997 £'000	1996 £'000
At 31 December 1997 the company had annual commitments under long term operating leases as follows:		
On land and buildings:		
Expiring within one year	-	15
	<u>          </u>	<u>          </u>
Other plant and machinery:		
Expiring within one year	38	145
Expiring after one and within five years	119	91
	<u>          </u>	<u>          </u>
	<u>157</u>	<u>236</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 Limited, 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) Limited to purchase waste paper on normal commercial terms. During the year, purchases from SCA Recycling (UK) Limited amounted to £6,790,000 (1996: £9,240,000).

## Commission payments

Commission receivable on sales made by Aylesford Newsprint Limited on behalf of various SCA companies amounted to £223,000 (1996: £314,000). During the year £614,000 (1996: £604,000) was payable in commission on sales made by various European SCA companies on behalf of the company.

## Taxation

During the year Aylesford Newsprint Limited received payment for surrendered tax losses arising in the year ended 31 December 1996 which totalled £2,393,000 (£1,197,000 each from the joint venture parties).

## Balances outstanding at 31 December 1997

### Trade debtors

Trade debtors of £15,812,000 (1996: £16,934,000) include an amount of £213,000 (1996: £678,000) due from SCA group companies.

### Trade creditors

Included within trade creditors of £3,552,000 (1996: £5,754,000) is an amount of £1,095,000 (1996: £2,217,000) which is owed to related companies. The balance has arisen mainly from the purchase of waste paper by Aylesford Newsprint Limited from the SCA group, particularly SCA Recycling (UK) Limited to whom £479,000 (1996: £1,433,000) of the balance is payable.