

BillerudKorsnäs Beetham Limited
Annual Report and Financial Statements

Registered Company No. 69606

31 December 2017



BillerudKorsnäs Beetham Limited

Directors

P Lindberg (resigned 31st December 2017)
S Lithander
H Krantz

Secretary

S Peill

Auditor

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Bankers

Skandinaviska Enskilda Banken AB
One Carter Lane
London
EC4Y 5AN

Solicitors

DWF LLP
5 St Paul's Square
Old Hall Street
Liverpool
L3 9AE

Registered Office and Number

No: 69606
Waterhouse Mills
Beetham
Milnthorpe
Cumbria LA7 7AR

Contents

Strategic Report	3
Directors' Report	7
Statement of Director's responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements	9
Independent Auditor's Report to the Members of BillerudKorsnäs Beetham Limited	10
Profit and Loss Account and Statement of other Comprehensive Income	12
Balance Sheet	13
Statement of Changes in Equity	14
Notes to Financial Statements	15

Strategic Report

The directors of BillerudKorsnäs Beetham Limited present their Strategic Report for the year ended 31 December 2017.

Principal activity and review of the business

The company continues to be engaged in speciality quality paper manufacture in the UK.

Overview

The company's key financial and other performance indicators during the year were as follows:

KEY INDICATORS

	2017	2016	% change
Turnover (£'000)	41,562	36,313	14.5
Operating Profit/(Loss) (£'000)	(134)	1,512	(108.9)
Sales (Tonnes)	37,382	33,436	11.8
Production (Tonnes)	37,551	36,028	4.2

BillerudKorsnäs Beetham Limited reported an operating loss of £134k in 2017, a decrease of £1,646k, -108.9%, from the 2016 result of a £1,512k operating profit.

The main reason for this was the increase in market pulp prices throughout the year, without corresponding increases in selling prices to match this. The market (PIX index) price of pulp rose by USD 192 from USD 808 in December 2016 to USD 1000 at the end of 2017.

This saw the total fibre cost increased from £16,529k in 2016 to £19,447k in 2017 – an increase in £2.9M.

Sales volumes of 37,382 tonnes were 3,946 tonnes higher than 2016 volumes, an increase of 11.8%. This was due to increased market demand followed by a strategic project by BillerudKorsnäs AB leading to increased productivity.

Although the average selling price of £1,112/tonne increased £26 from £1,086/tonne in 2016, this was not sufficient to counteract the increase in fibre prices. The weakening of the GBP against the Euro and USD, resulting in a currency gain on sales, was the main reason for the increase in average selling price.

Overall, input costs were increased by 22% from 2016. Energy costs rose during the year with total energy costs of £4,103k, being £747k higher than 2016 costs of £3,356k. In contrast, chemical costs were £100k lower than 2016 costs, averaging £97/tonne compared to £103/tonne in 2016. This was due to a weaker GBP, with the majority of chemicals purchased in Euros.

Market

BillerudKorsnäs Beetham Ltd continues to be an integral part of the BillerudKorsnäs Group.

BillerudKorsnäs AB was formed on 29 November 2012 with the merger of Billerud AB and Korsnäs AB. The company is listed and traded on the Large Cap list of Nasdaq Stockholm. The already successful businesses of Billerud and Korsnäs have been further strengthened by the merger in packaging materials and packaging solutions, creating a strong international player in the packaging industry. There are three cornerstones to the Group's offering – packaging materials made from primary fibre, innovative packaging solutions and a global network of partners, who are driven by a passion to develop smarter packaging solutions based on renewable materials.

Strategic Report

BillerudKorsnäs' sales organisation is committed to efficiently serving all of its customers around the world. The company's headquarters are situated in Stockholm and its eight production facilities are located in Sweden, Finland and the UK. Their 2,000 customers are packaging manufacturers, brand owners and large retail and supermarket chains in over 100 countries.

BillerudKorsnäs Beetham Limited, producing speciality quality paper, is reported in the Group's Packaging Paper Business Area, with a focus on food and medical products.

Markets for BillerudKorsnäs Beetham Ltd have remained strong and in particular, exports to non-European markets saw an increase from 27% of turnover in 2016 to 29% of turnover in 2017. Overall, overseas sales grew from 65% of total turnover in 2016 to 67% in 2017. UK markets saw a decline from 35% in 2016 to 33% in 2017.

BillerudKorsnäs Beetham Ltd.'s largest market segment, Medical applications, remained strong with total volumes reaching 20,806 tonnes in 2017 compared to 19,155 tonnes in 2016. Grease Resistant segments saw a small growth from 11,462 tonnes in 2016 to 11,611 tonnes in 2017.

Investments and capital employed

Net fixed asset additions in 2017 amounted to £861k (2016: £630k). Major projects totalled £570k, which included £291k for Steam Drying improvements on one of the paper machines along with a new MG Bearing.

Depreciation charged in the year was £886k (2016: £840k) and capital employed (total assets less current liabilities) as at 31st December 2017 totalled £12.7m (2016:£12.9m).

Significant risks and uncertainties

BillerudKorsnäs Beetham Limited is affected by the general economic climate, changes in exchange rates and other factors that are more specific to the company. BillerudKorsnäs Beetham Limited endeavours to minimise risk through preventive measures. Wherever possible, risk is hedged or insured against. The following describes the factors that are significant in assessing BillerudKorsnäs Beetham Limited's operating risk and financial risk.

OPERATING RISKS

Description of risks	Risk Management	Comments on 2017
<p>Variations in market prices and volumes for products</p> <p>BillerudKorsnäs Beetham Ltd.'s products are dependant on the business cycle, both in terms of price development and potential sales volumes</p>	<p>The customer base is constantly subject to change. Customer agreements are made at Group level in respect of payment, stock terms and conditions. These are re-negotiated regularly on a six-twelve month basis.</p>	<p>2017 sales volumes increased by 3,946 tonnes and operating margins decreased from 4.2% in 2016 to -0.3% in 2017.</p> <p>Economic climate was favourable and exchange rates strengthened the Euro and USD selling prices.</p>
<p>Customer dependence and credit risk</p> <p>BillerudKorsnäs Beetham Ltd sold to 253 customers in 2017, 236 in 2016. The top 10</p>	<p>Customers are mainly packaging converters making bags and wrappings. Customer agreements and relations go back many years.</p>	<p>At year end 2017, accounts receivable totalled £7,896k, an average customer credit period of 88 days, compared to £7,203k</p>

Strategic Report

accounts amounted to 64% (2016:56%) and the total customer base now spans 53 countries. It is vital that these major customers' demands are met and that they fulfil their payment obligations.

Credit terms vary with market and product within the Group, and credit is insured under a Group policy, and is managed by the sales offices.

in 2016, being 85 days.

Description of risks	Risk Management	Comments on 2017
<p>Fibre price risk</p> <p>Market price of pulp and waste vary, affected by demand by industry and consumers. Pulp is the highest contributor to raw material costs, 81% in 2017 (2016: 78%).</p>	<p>Pulp is purchased internally through Group and from external suppliers. Transfer pricing is not considered to be an issue as the Group price is modelled on the best terms received externally.</p>	<p>In 2017 Group pulp made up 33% of total pulp used, 33% in 2015. The majority of pulp is purchased in USD, and the average price in 2017 was \$850 against \$712 in 2016.</p>
<p>Energy price risk</p> <p>Energy costs represented 15% (2016: 14%) of variable costs in 2017, second only to pulp.</p>	<p>Gas and electricity prices (£/kWh) are contracted monthly in advance with Eon UK. External prices vary greatly with market demand and seasonality.</p>	<p>In 2017 energy costs totalled £4,103k, £747k higher than that of 2016, an increase of 22%.</p>
<p>Environmental impact</p> <p>BillerudKorsnäs Beetham Ltd has a major impact on the environment. Its processes result in the consumption of raw materials, mainly wood pulp, water and energy. Emissions into water and air, noise and waste management also has an impact on the environment.</p>	<p>Permits are obtained from The Environment Agency to regulate maximum environmental impact. Key staff are trained in environmental issues to ensure the impact is managed.</p>	<p>Environmental activities in 2017 were conducted to satisfactory effect.</p>
<p>Seasonal variations</p> <p>BillerudKorsnäs Beetham Ltd is relatively unaffected by seasonality. Orders remain constant throughout the year, with the only impact being a 2 week shutdown of production in Summer.</p>	<p>Although major overhauls are carried out in the Summer shutdown, routine maintenance is carried out every fourth week during scheduled shutdowns, to reduce the impact.</p>	<p>In 2017 the Steam Upgrade project was undertaken.</p>

FINANCIAL RISKS

Description of risks	Risk Management	Comments on 2017
<p>Currency risk - transaction exposure</p> <p>This is the risk of changes in the exchange rates for export revenues and import purchases.</p> <p>The main currencies involved are USD, EUR and SEK. In 2017 71% of sales</p>	<p>All currency transactions are now made at spot rate according to Group policy.</p> <p>Hedging of cash flows is only permitted at Group level, entailing that between 0% - 80% of net</p>	<p>At 2017 year end there were no outstanding forward contracts, in line with Group policy.</p>

Strategic Report

(63% in 2016) were made in foreign currency. The majority of pulp purchases are also in foreign currency, mainly USD, with most chemicals being purchased in Euro.

flows over a 15 month period can be hedged.

By order of the Board



Håkan Krantz

Director

21 June 2018

Directors' Report

The directors of BillerudKorsnäs Beetham Limited present their report and financial statements for the year ended 31 December 2017.

Product and process development

BillerudKorsnäs Beetham Ltd continues to carry out Research and Development in existing and new products and processes. The cost of such activities are charged directly to the Profit and Loss account, along with the relevant 'RDEC' with effect from 1st April 2013. The RDEC for 2017 was £41,459 (2016: £35,493).

Going Concern

BillerudKorsnäs Beetham Ltd has access to financing through Group cash pooling arrangements. The Directors have confirmed that such arrangements will remain in place for the foreseeable future. In addition BillerudKorsnäs Beetham Ltd is expected to continue to generate cash flows to cover future costs.

The Directors therefore consider the going concern basis of preparation to be appropriate.

Results and dividends

The loss for the year as shown in the profit and loss account is £85,288 (2016 profit of £1,219,717).

The directors do not recommend the payment of a dividend (2016 – £nil).

Directors

The directors who held office during the year were as follows:

P Lindberg (*resigned 31st December 2017*)

S Lithander

H Krantz

Code of Conduct

BillerudKorsnäs Code of Conduct brings together the values, attitudes and guidelines governing our relations with each other and with society at large. The purpose of the Code is to ensure that all our employees have a good working environment and that those who do business with us know that we are committed to ethical and sound enterprise.

The Code of Conduct covers the following areas:

- Compassion and responsibility – rights and responsibilities as individuals
- Care and consideration – in relationships with customers and employees
- A part of society – responsibility for sustainable development locally and globally
- Our employees – a safe and stimulating working environment with a focus on equality
- Consideration for the environment – renewable raw materials and climate smart products
- Our customers' confidence – attentiveness and responsibility for the products
- Close to our business partners – good business ethics and an open dialogue
- Responsibility to our owners – long-term, stable and sustainable increase in value
- Application and compliance – code for everyone, incidents are reported

Employee involvement

BillerudKorsnäs Beetham Ltd continues to open channels for communication and consultation with all employees and their representatives on a variety of matters. Information is widely available as to the local performance and Group performance in the form of intranets and Group publications.

Directors' Report

Disabled persons

The company's policy is to ensure that equal opportunity is given to applicants from Registered Disabled Persons applying for employment vacancies, taking into account the experience, aptitude and abilities of such applicants against the requirements of the position for which they have applied.

All steps, as far as is reasonably practicable, are taken to provide appropriate training and employment facilities for the continuation of employment of those employees who become disabled during the course of their employment with the company.

Training and development opportunities are extended to all employees irrespective of any disabilities consistent with the requirement of the company and the estimated potential capacity of the individual.

Policy and practice on payment of creditors

It is the company's policy to agree terms of payment with suppliers before the onset of trade with the supplier. Once agreed it is the company's policy to abide by those terms. Where no terms exist the company will apply its default terms unless the supplier is classed as a local supplier in which case the supplier will be paid promptly.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that ought to have been taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Charitable donations

During 2017 BillerudKorsnäs Beetham Ltd.'s charitable donations amounted to £4,398 (£5,282 in 2016).

Political contributions

BillerudKorsnäs Beetham Ltd made no political donations or incurred any political expenditure during the year.

Future Developments

As part of BillerudKorsnäs AB's investments for increased growth and efficiency, the company has decided on an investment project to develop their Skärblacka mill in Sweden into a world-beating centre for the manufacture of MG (machine glazed) paper. One element of the project is to move the MG machine from Tervasaari in Finland to Skärblacka, where it will be integrated with the pulp production.

BillerudKorsnäs Beetham will be structured to fully integrate its production and technical expertise with its sister Skärblacka mill to develop a combined world leading MG centre.

The directors have put in place a business plan to 2019 to include the above developments and expect the business to continue trading in line with its principle activities during that period.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



Håkan Krantz

Director

21 June 2018

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of BillerudKorsnäs Beetham Limited

Opinion

We have audited the financial statements of BillerudKorsnäs Beetham Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account and Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of BillerudKorsnäs Beetham Limited

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Richard Evans (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

21 June 2018

Profit and Loss Account and Statement of Other Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 £	2016 £
Turnover	2	41,561,555	36,312,991
Cost of sales		(34,929,962)	(28,619,879)
Gross Profit		6,631,593	7,693,112
Distribution costs		(2,648,345)	(2,219,700)
Administrative expenses		(4,439,429)	(4,017,124)
Other operating income		82,999	55,929
Exceptional item	3	239,586	-
Operating (Loss)/Profit	4	(133,596)	1,512,217
Interest receivable and similar income	7	1,253	113
Interest payable and similar charges	8	(18,833)	(16,622)
(Loss)/Profit before taxation		(151,176)	1,495,708
Taxation on (Loss)/profit	9	65,888	(275,991)
(Loss)/Profit for the financial year		(85,288)	1,219,717
Other Comprehensive (Loss)/Income for the year		-	-
Total Comprehensive (Loss)/Income for the year		(85,288)	1,219,717

All results derive from continuing operations.

The notes on pages 15 to 26 form part of the financial statements.

Balance Sheet

at 31 December 2017

	<i>Notes</i>	<i>2017</i> £	<i>2016</i> £
Fixed assets			
Tangible assets	10	5,203,043	5,228,666
Current assets			
Stocks	11	6,286,425	4,828,723
Debtors	12	9,717,692	8,632,997
Cash at bank and in hand		590,035	351,815
		<u>16,594,152</u>	<u>13,813,535</u>
Creditors: amounts falling due within one year	13	(9,047,778)	(6,158,490)
		<u>7,546,374</u>	<u>7,655,045</u>
Net current assets		12,749,417	12,883,711
Total assets less current liabilities		12,749,417	12,883,711
Provisions for liabilities	14	(321,991)	(370,997)
		<u>12,427,426</u>	<u>12,512,714</u>
Net assets		12,427,426	12,512,714
Capital and reserves			
Share capital	15	9,500,000	9,500,000
Profit and loss account		2,927,426	3,012,714
		<u>12,427,426</u>	<u>12,512,714</u>
Equity shareholders' funds		12,427,426	12,512,714

These financial statements were approved by the board of directors on 21 June 2018 and were signed on its behalf by:



Håkan Krantz

Director

Company registered number: 69606

The notes on pages 15 to 26 form part of the financial statements.

Statement of Changes in Equity

	<i>Called Up Share Capital</i>	<i>Profit & Loss Account</i>	<i>Total Equity</i>
	£	£	£
Balance at 1 January 2016	9,500,000	1,792,997	11,292,997
Profit for year	-	1,219,717	1,219,717
Balance at 31 December 2016	9,500,000	3,012,714	12,512,714
Balance at 1 January 2017	9,500,000	3,012,714	12,512,714
(Loss) for year	-	(85,288)	(85,288)
Balance at 31 December 2017	9,500,000	2,927,426	12,427,426

The notes on pages 15 to 26 form part of the financial statements.

Notes to Financial Statements

1. Accounting policies

BillerudKorsnäs Beetham Limited (the "company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling.

The Company's ultimate parent undertaking, BillerudKorsnäs AB, includes the Company in its consolidated financial statements. The consolidated financial statements of BillerudKorsnäs AB are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from BillerudKorsnäs AB, Box 703, SE-169 27, Solna, Sweden.

In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of BillerudKorsnäs AB include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the financial statements.

Going concern

The financial statements have been prepared on the going concern basis which the Directors believe to be appropriate for the following reasons:

The Company is dependent for its working capital on funds provided to it by other group companies, the Directors of which have indicated that, for at least 12 months from the date of approval of these financial statements, they will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Notes to Financial Statements

1. Accounting policies (*continued*)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- buildings 5 – 20 years
- plant and machinery 3 – 20 years
- vehicles 4 years
- business computers 5 years
- fixtures and fittings 3 – 15 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes to Financial Statements

1. Accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Turnover

Turnover consists of amounts invoiced net of VAT and rebates to customers in respect of the supply of manufactured paper products.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods.

Expenses

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

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

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to Financial Statements

2. Turnover

The analysis of turnover by geographical market is set out below:

	2017	2016
	£	£
United Kingdom	13,710,209	12,778,223
Europe	15,985,887	13,579,952
Rest of world	11,865,459	9,954,816
	<u>41,561,555</u>	<u>36,312,991</u>

Turnover has been derived solely from the principal activities of the company.

3. Exceptional Item

On 5th December 2015 Storm Desmond hit the North of England and Scotland. The mill at Beetham, being situated beside the River Bela in Cumbria, experienced severe flooding on unprecedented levels. The mill was closed for a period of time for cleaning and repairs and reopened for production in January 2016.

The claim was settled on 12th January 2018 with the company's insurers and all measures are included in these accounts.

The exceptional items include:

	2017	2016
	£	£
Cost of flood damage incurred to date	2,306,155	2,255,313
Receipt from Insurers to date	(2,135,841)	(1,208,657)
Expected receipt from Insurers	-	(636,756)
Amounts expensed to date	(409,900)	(409,900)
	<u>(239,586)</u>	<u>-</u>
Exceptional item	<u>(239,586)</u>	<u>-</u>

Notes to Financial Statements

4. Operating Profit:

This is stated after charging:

	2017	2016
	£	£
Auditor's remuneration – audit	22,000	20,000
Depreciation	886,267	839,895
Redundancy costs	188,954	65,406
Hire of plant and machinery – rentals payable under operating leases	83,044	83,157
Exceptional Item (see note 3)	(239,586)	-
	<u> </u>	<u> </u>

5. Directors' emoluments

The directors are employed by other group companies and therefore any remuneration is borne by those group companies. No remuneration is given in respect of acting as a director of this entity as it is incidental to their overall responsibilities to the group (2017: £nil).

6. Staff costs

	2017	2016
	£	£
Wages and salaries	6,077,445	5,702,435
Social security costs	656,259	619,842
Pension costs	332,439	320,034
	<u>7,066,143</u>	<u>6,642,311</u>
	<u> </u>	<u> </u>

Notes to Financial Statements

6. Staff costs (continued)

The average monthly number of employees during the year was as follows:

	2017 <i>No.</i>	2016 <i>No.</i>
Managerial	24	23
Administrative	41	38
Operatives	87	79
	<u>152</u>	<u>140</u>

7. Interest receivable and similar income

	2017 £	2016 £
On bank deposits	1,253	113
	<u>1,253</u>	<u>113</u>

8. Interest payable and similar charges

	2017 £	2016 £
On bank loans and overdrafts	18,833	16,622
	<u>18,833</u>	<u>16,622</u>

Notes to Financial Statements

9. Taxation

Total tax expense recognised in the profit and loss account:

	2017	2016
	£	£
<i>Current tax:</i>		
UK corporation tax on income for the period	7,979	7,099
Adjustment in respect of prior periods	(40,984)	(72,002)
Total current tax	<u>(33,005)</u>	<u>(64,903)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(37,585)	295,043
Adjustment in respect of prior periods	(492)	66,512
Effect of changes in tax rates	5,194	(20,661)
Total deferred tax	<u>(32,883)</u>	<u>340,894</u>
Total tax	<u><u>(65,888)</u></u>	<u><u>275,991</u></u>

Notes to Financial Statements

9. Taxation (continued)

Reconciliation of effective tax rate

	2017 £	2016 £
(Loss) / Profit for the year	(85,288)	1,219,717
Total (credit) / tax expense	<u>(65,888)</u>	<u>275,991</u>
(Loss) / Profit excluding taxation	(151,176)	1,495,708
Tax on (Loss) / Profit at standard UK rate of 19.25% (2016 – 20.0%)	(29,096)	299,142
Non-deductible expenses	7,548	7,423
Effects of group relief/other reliefs	(383)	-
Tax rate changes	5,194	(20,661)
Employees Share Acquisition Relief	(7,675)	(4,423)
Adjustment from prior periods	(41,476)	(5,490)
Total (credit) / tax expense included in profit and loss	<u>(65,888)</u>	<u>275,991</u>

A reduction in the UK corporation tax rate from 20 to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2017 has been calculated based on these rates.

Notes to Financial Statements

10. Tangible fixed assets

	<i>Freehold land and buildings</i>	<i>Plant, machinery, equipment and vehicles</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 January 2017	1,914,180	37,878,235	39,792,415
Additions	56,130	804,514	860,644
Disposals	-	-	-
At 31 December 2017	<u>1,970,310</u>	<u>38,682,749</u>	<u>40,653,059</u>
Depreciation:			
At 1 January 2017	803,534	33,760,215	34,563,749
Charge for the year	44,900	841,367	886,267
Disposals	-	-	-
At 31 December 2017	<u>848,434</u>	<u>34,601,582</u>	<u>35,450,016</u>
Net book value:			
31 December 2017	<u>1,121,876</u>	<u>4,081,167</u>	<u>5,203,043</u>
At 1 January 2017	<u>1,110,646</u>	<u>4,118,020</u>	<u>5,228,666</u>

11. Stocks

	<i>2017</i>	<i>2016</i>
	£	£
Raw materials and consumables	2,830,796	1,093,717
Finished goods	3,455,629	3,735,006
	<u>6,286,425</u>	<u>4,828,723</u>

Notes to Financial Statements

12. Debtors: amounts falling due within one year

	2017	2016
	£	£
Trade debtors	7,895,879	7,203,522
Intercompany debtors	9,869	37,081
Other debtors	1,594,557	1,012,198
Prepayments	190,695	195,204
Corporation tax	26,692	184,992
	<u>9,717,692</u>	<u>8,632,997</u>

Other debtors balance includes £924,327 (2016: £636,756) in respect of the receipt from Insurers for the flood damage claim to 31st December 2017.

13. Creditors: amounts falling due within one year

	2017	2016
	£	£
Trade creditors	1,376,010	2,510,234
Intercompany creditors	1,562,623	1,204,331
Other taxation and social security	308,388	294,857
Accruals and deferred income	1,748,629	890,428
Cash pool overdraft	4,052,128	1,258,640
	<u>9,047,778</u>	<u>6,158,490</u>

14. Provisions for liabilities

	<i>Deferred taxation</i>
	£
At beginning of year	370,997
Movement	(49,006)
At end of year	<u>321,991</u>

Notes to Financial Statements

14. Provisions for liabilities (continued)

The amounts provided for deferred taxation are set out below:

	<i>Provided</i> 2017 £	<i>Provided</i> 2016 £
Accelerated Capital Allowances	347,422	394,094
Short term timing differences	(8,014)	(5,451)
Gains /(Losses)	-	-
R&D expenditure credit	(17,417)	(17,646)
	<u>321,991</u>	<u>370,997</u>

15. Issued share capital

	2017 £	2016 £
<i>Authorised and issued and fully paid</i>		
9,500,000 ordinary shares of £1 each	<u>9,500,000</u>	<u>9,500,000</u>

16. Contingent liabilities and guarantees

Guarantees totalling £150,000 existed at 31 December 2017 (2016 – £150,000).

The guarantees were in favour of the HM Revenue & Customs.

17. Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £	2016 £
Less than one year	95,164	104,624
Between one and five years	142,927	166,028
	<u>238,091</u>	<u>270,652</u>

During the year £83,044 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £83,157).

Notes to Financial Statements

18. Commitments

Capital commitments of the company to purchase tangible fixed assets at the end of the financial year for which no provision has been made are as follows:

	2017	2016
	£	£
Contracted	8,259	49,654
Authorised but not contracted	70,229	48,902
	<u>78,488</u>	<u>98,556</u>

19. Pensions

Employees of the company are, where appropriate, included in the BillerudKorsnäs UK Pension Plan, a Group Pension Scheme which is of a defined contribution type. The assets of the scheme are held in trustee administered funds.

The pension charge for the year was £332,439 (2016: £320,034). Employer pension contributions owing at the year end were £27,813 (2016: £26,408).

20. Ultimate parent undertaking and controlling party

The ultimate parent undertaking is BillerudKorsnäs AB, a Swedish limited liability company with its registered office in Stockholm. The shares of the parent company are registered with Nasdaq Stockholm. The smallest and largest group in which the results of the company are consolidated is that headed by BillerudKorsnäs AB.

The consolidated financial statements for this group can be obtained from BillerudKorsnäs AB, Box 703, SE-169 27 Solna, Sweden.