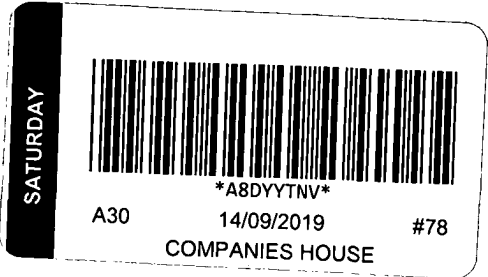


SCA Wood UK Limited (formerly SCA Timber Supply Limited)

**Annual report and Financial Statements
for the year ended 31 December 2018**



**Annual report and Financial Statements
for the year ended 31 December 2018**

**Annual report and financial statements
for the year ended 31 December 2018**

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Strategic report

for the year ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Business review and principal activities

The principal activity of the company is that of a timber importer and timber sales agency, together with the manufacture and supply of products to the Builders Merchant and Do It Yourself sectors.

The results for the year are shown on page 10 of the financial statements. The directors do not recommend the payment of a dividend (2017 – £nil). At the year end, the company has net assets of £8,018,000 (2017 – net assets £7,605,000).

In 2018, the company consolidated its trading activities and continued with its objectives of business efficiency, growth and profit improvement across its business streams.

On 17 July 2018, the company changed its name from SCA Timber Supply UK Limited to SCA Wood UK Limited.

Future developments

The external commercial environment is expected to remain competitive in 2019. However, with a cautious view on developments associated with “Brexit” uncertainty, the directors are confident that the company will be profitable in 2019.

Key performance indicators (KPIs)

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs, other than the financial statements, is not necessary for an understanding of the development, performance or position of the business. The company's turnover in the year was £133,938,000 (2017: £123,832,000), gross profit was £18,702,000 (2017: £20,314,000) and the net profit was £413,000 (2017: loss of £437,000).

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to competition from other timber suppliers, employee retention and sustainability of raw material.

The impact of the EU referendum result leading to the UK voting to leave the EU is likely to result in further months of uncertainty as the political and legal issues are worked out. The directors do not believe that it will have a material impact on the business but will monitor events closely.

Details of financial risk management are included in the directors' report.

By order of the Board



R A Mills, Director

Date: 9 September 2019

Registered number: 2541468

Directors' report

for the year ended 31 December 2018

The directors present their directors' report of the company for the year ended 31 December 2018.

Future developments

Future developments are detailed in the strategic report.

Going concern

The directors have reviewed the budgets and forecast for the company and expect that the company will continue to be profitable and generate a positive cash inflow in the next 12 months. The company has net current assets and the directors therefore have a reasonable expectation that the company has adequate financial resources to meet its obligations as they fall due for a period of at least 12 months from the signing of the financial statements. Therefore the financial statements have been drawn up on the basis that the Company is a going concern.

Charitable and political donations

Charitable donations for the year amounted to £Nil (2017 – £Nil). No political donations were made (2017 – £nil).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements, except where indicated were:

E J Griffiths
S B King
R A Mills
J B McKay
P M Henningson

Directors' indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Financial risk management

The company's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk and liquidity risk. The company has in place a risk management programme that seeks to limit adverse effects on its financial performance. The policies set by the directors are implemented by the company's management team.

Foreign exchange risk

The company is exposed to currency risk when it has binding commercial or financial obligations in a currency other than its functional currency and the related cash inflows and outflows are not equal in amounts and timing.

Activities are focused on transactional cash flows which arise from receivables, payables, loans, cash balances, orders received and purchase orders. The primary responsibility to identify areas such as hedge currency exposures lies with the company, although the company extensively uses the resources and guidance of SCA (its ultimate parent company) treasury to manage foreign exchange risk.

Directors' report

for the year ended 31 December 2018 (continued)

Financial risk management (continued)

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the management of the company.

Liquidity risk

The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for its operations and planned expansions.

Suppliers

The company agrees payment terms with its suppliers in the UK on the commencement of business and at appropriate intervals thereafter. The company endeavours to pay its suppliers in accordance with those terms when it is satisfied that goods or services have been correctly supplied against a valid purchase Order raised by an authorised person.

At 31 December 2018, the company had creditors outstanding equivalent to 60 purchase days (2017 – 62 days).

Employee involvement

Recognising that the success of the Company depends on the quality of performance of its employees, increased emphasis is being put on communication programmes to ensure that employees understand the business strategy and can contribute towards its achievements. Throughout the year, principally through regular team briefings and meetings with staff, the Company has continued to improve its arrangements for employee consultation and communication on matters relating to business performance and objectives. There is also an established health and safety committee, which consists largely of employee representatives.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and 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 the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and

Directors' report

for the year ended 31 December 2018 (continued)

Directors' responsibilities statement (continued)

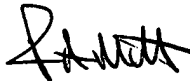
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditors

So far as the directors are aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware and the directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



Alan Mills

Director

Date: 9 SEPTEMBER 2019

Registered number: 2541468

Independent auditors' report

to the members of SCA Wood UK Limited

Opinion

We have audited the financial statements of SCA Wood UK Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditors' report **to the members of SCA Wood UK Limited (Continued)**

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditors' report to the members of SCA Wood UK Limited (Continued)

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Stephen Kirk (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham, UK

Date: 12th September 2019

Income statement

for the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
Turnover	2	133,938	123,832
Cost of sales		(115,236)	(103,518)
Gross profit		18,702	20,314
Distribution costs		(4,943)	(4,780)
Administrative expenses		(12,721)	(12,608)
Exceptional item: pension settlement		-	(2,814)
Exceptional item: impairment of investment	9	-	-
Operating profit	3	1,038	112
Finance costs	6	(707)	(449)
Profit/(loss) on ordinary activities before taxation		331	(337)
Tax on profit/(loss) on ordinary activities	7	82	(100)
Profit/(loss) for the financial year		413	(437)

The results for the years above reflect trading from continuing operations.

Statement of comprehensive income

for the year ended 31 December 2018

	<i>2018</i>	<i>2017</i>
<i>Note</i>	<i>£000</i>	<i>£000</i>
<i>Profit/(loss) for the financial year</i>	413	(437)
<i>Other comprehensive income for the year, net of tax</i>	-	-
<i>Total comprehensive income/(expense) for the year</i>	<u>413</u>	<u>(437)</u>

Annual report and Financial Statements
for the year ended 31 December 2018

Statement of financial position

as at 31 December 2018

	2018	2017
<i>Notes</i>	<i>£000</i>	<i>£000</i>
Fixed assets		
Intangible assets	8	-
Investments	9	10
Property, plant and equipment	10	7,091
	<u>6,889</u>	<u>7,091</u>
	6,899	7,101
Current assets		
Inventories	11	23,390
Trade and other receivables	12	27,550
Cash and cash equivalents		10,186
		<u>61,126</u>
	61,126	52,734
Creditors: amounts falling due within one year	13	(59,990)
		<u>(52,221)</u>
Net current assets		1,136
		513
Total assets less current liabilities		8,035
		7,614
Provision for liabilities	14	(17)
		<u>(9)</u>
Net assets		8,018
		7,605
Equity		
Called up share capital	15	2,000
Other reserves		11,200
Retained earnings		(5,182)
		<u>(5,182)</u>
Total equity shareholders' funds		8,018
		<u>7,605</u>

The financial statements on pages 9 to 25 were approved by the board of directors and were signed on its behalf by:



Alan Mills
Director

Date: 9 SEPTEMBER 2019

Company no. 02541468

Statement of changes in equity

for the year ended 31 December 2018

	<i>Called-up share capital</i> £000	<i>Capital contribution</i> £000	<i>Merger reserve</i> £000	<i>Retained earnings</i> £000	<i>Total equity shareholders ' funds</i> £000
1 January 2017	2,000	11,000	200	(5,158)	8,042
Loss for the financial year	-	-	-	(437)	(437)
1 January 2018	2,000	11,000	200	(5,595)	7,605
Profit for the financial year	-	-	-	413	413
31 December 2018	2,000	11,000	200	(5,182)	8,018

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies

General information

SCA Wood UK Limited is a private company incorporated and domiciled in the United Kingdom. The principal activity of the company is that of a timber importer and timber sales agency, together with the manufacture and supply of timber products to be Builders Merchant and Do It Yourself sectors. The address of the registered office is Etruscan Street, Etruria, Stoke on Trent, Staffordshire ST1 5PG.

Basis of preparation

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101).

The financial statements have been prepared under the historical cost convention. These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework (FRS 101) and, the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to produce group financial statements because it is a wholly owned subsidiary of Svenska Cellulosa Aktiebolaget, a company registered in Sweden. These financial statements present information about the company as an individual undertaking and not about its group

In these financial statements the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- comparative period reconciliations for Property, plant and equipment and intangible assets;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- an additional statement of financial position for the beginning of the earliest comparative period following the retrospective change in accounting policy; and
- disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Svenska Cellulosa Aktiebolaget ('SCA') include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- disclosures required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of the cash flows of discontinued operations;
- certain disclosures required by IFRS 3 *Business combinations* in respect of the business combinations by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies (continued)

Basis of preparation (continued)

- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company has adopted IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial Instruments* within these financial statements. The adoption of these standards has had no material impact on the previous amounts reported by the Company. Other than these standards the accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements have been made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed further below.

Measurement convention

The financial statements are prepared under the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available for sale and investment property. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The directors have reviewed the budgets and forecast for the company and expect that the company will continue to be profitable and generate a positive cash inflow in the next 12 months. The company has net current assets and the directors therefore have a reasonable expectation that the company has adequate financial resources to meet its obligations as they fall due for a period of at least 12 months from the signing of the financial statements. Therefore the financial statements have been drawn up on the basis that the Company is a going concern.

Revenue recognition

SCA has applied IFRS 15, which has replaced IAS 11 and IAS 18, since January 1, 2018. The new standard is designed according to a control-based five-step model. It requires that revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for promised goods or services to customers. The standard regulates commercial agreements (contracts) with customers in which delivery of goods and services is divided into separately identifiable performance obligations that are recognized independently. The standard establishes rules for calculating the transaction price for delivery of goods and services and the manner in which this can be allocated among the various performance obligations. Revenue is recognised when control has passed to the customer by the customer being able to use or benefit from the good or service, at which point it is deemed to have been transferred. Control may be passed at a given point in time, which is usually the case for sale of goods. In other cases, a performance obligation may be satisfied over time, which is common on sale of services.

Business combinations

All unincorporated business combinations are accounted for by applying the acquisition method. Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Company.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Company elected not to restate business combinations that took place prior to 1 January 2014. In respect of acquisitions prior to 1 January 2014, goodwill is included at 1 January 2014 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only inseparable intangibles were recognised and goodwill was amortised.

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies (continued)

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost, together with incidental costs of acquisition. Property, plant and equipment is stated at historic purchase cost less accumulated depreciation.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of Property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	–	3.33%
Plant and machinery	–	10-20%
Fixtures and fittings	–	10-20%
Motor vehicles	–	25%

Depreciation methods, useful lives and residual values are reviewed at each statement of financial position date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the lower of cost and net realisable value principle and includes expenditure incurred in acquiring the inventory and other costs in bringing them to their existing location and condition, including transport and handling costs.

Impairment of financial assets (including trade and other receivables)

SCA has applied IFRS 9 Financial Instruments, which has replaced IAS 39 Financial Instruments in its entirety, since January 1, 2018. Trade receivables belong to the category of financial assets measured at amortized cost, since the purpose of the holding is to obtain contractual cash flows. The standard has introduced a new model for impairment of financial assets based on expected losses. A simplified model has been developed for trade receivables, whereby anticipated losses are recognized for the estimated remaining lifetime of the receivable. SCA has chosen to apply the simplified impairment model. In the past, SCA has not incurred significant customer losses and these losses have not exhibited significantly different loss patterns for various customers segments or economic cycles, which is why a matrix is used to measure expected customer losses. The provision for doubtful trade receivables is based on an individual assessment of overdue trade receivables for each customer. The basis for the assessment of credit risk in the part of the customer portfolio that is not assessed individually is past customer losses, based on average loss frequency. The average loss frequency is adjusted as necessary to take into account changes in credit risk.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies (continued)

Impairment of non-financial assets (continued)

The recoverable amount of an asset of cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "Cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are segregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset of cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "Cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are segregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of other assets in the unit (group of units) on a pro-rate basis.

An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies (continued)

Employee benefits

Defined contribution plans

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

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling on 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 Income statement.

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the year end. Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive Income.

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 statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the Company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies (continued)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property, plant and equipment.

(b) Inventory provisioning

The company designs, manufactures and sells products and is subject to changing customer demands and economic trends. As a result it is necessary to consider the recoverability of the cost of the inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of the finished goods and future usage of raw materials. See note 11 for the net carrying amount of the inventory and associated provision.

(c) Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and the historical experience. See note 12 for the net carrying amount of the receivables and associated impairment provision.

2. Turnover

All of the turnover relates to the sale of timber products to the Builders Merchant and Do It yourself sectors.

Turnover consists principally of sales made in the United Kingdom.

Included in turnover are the following non UK amounts: Ireland £110,000 (2017 – £76,000).

Notes to the financial statements

for the year ended 31 December 2018

3. Operating profit

Operating profit is stated after charging:

	2018 £000	2017 £000
Wages and salaries	8,455	7,983
Social security costs	813	768
Other pension costs	597	3,757
Staff costs	<u>9,865</u>	<u>12,508</u>
Impairment of trade receivables (included in administrative expenses)	-	-
Inventory recognised as an expense (included in cost of sales)	117,589	104,649
Impairment of inventory (included in cost of sales)	352	163
Auditors' remuneration		
– for audit services	52	54
Operating lease charges	1,514	1,655
Depreciation of tangible fixed assets	<u>982</u>	<u>973</u>

4. Employees

The monthly average number of persons, including executive directors, employed by the company during the year was as follows:

	2018 No.	2017 No.
<i>By activity</i>		
Management and administration	81	79
Production and distribution	214	205
	<u>295</u>	<u>284</u>

5. Directors' emoluments

	2018 £000	2017 £000
Aggregate emoluments	477	497
Pension contributions	91	111
	<u>568</u>	<u>608</u>

Amounts paid to the highest paid director in the year were as follows:

	2018 £000	2017 £000
Wages and salaries	180	212
Pension contributions	29	43
	<u>209</u>	<u>255</u>

Notes to the financial statements

for the year ended 31 December 2018

6. Finance costs

Finance costs

Interest on employment benefits	-	1
Interest on loans from group undertaking	707	448
	<u>707</u>	<u>449</u>

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

	2018	2017
	£000	£000
Current tax		
UK corporation tax on profit/(loss) for the year	-	318
Adjustments in respect of prior years	(90)	-
Total current tax	<u>(90)</u>	<u>318</u>
Deferred tax		
Current year deferred tax	59	-
Origination and reversal of timing differences	-	5
Pension scheme movement	-	(341)
Change in tax rate	(7)	-
Adjustment in respect of prior years	(44)	118
Total deferred tax (note 14)	<u>8</u>	<u>(218)</u>
Tax on profit/(loss) on ordinary activities	<u>(82)</u>	<u>100</u>

The current tax assessed for the year is lower (2017 – higher) than the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained below:

Notes to the financial statements

for the year ended 31 December 2018

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

	2018 £000	2017 £000
Profit/(loss) on ordinary activities before taxation	331	(337)
Profit/(loss) on ordinary activities multiplied by the standard tax rate in the of 19% (2017 – 19.25%)	63	(65)
<i>Effects of:</i>		
Other expenses not deductible for tax purposes	(4)	3
Change in tax rate	(7)	44
Adjustments in respect of prior years	(134)	118
Total tax	(82)	10

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 19% (2017: 19.25%).

Further reductions to the UK tax rate have been announced which will reduce the rate to 17% from 1 April 2020. These rates were substantively enacted before 31 December 2017. Deferred tax has been recorded at a rate of 17%, being the average rate at which the closing deferred tax is expected to reverse.

Tax expense included in other comprehensive income

	2018 £000	2017 £000
Deferred tax		
Pension scheme movement	-	-
Total tax included in other comprehensive income	-	-

8. Intangible assets

	<i>Goodwill</i> £000
Cost:	
At 1 January 2018 and 31 December 2018	1,568
Accumulated amortisation and impairment:	
At 1 January 2018 and 31 December 2018	1,568
Net book value:	
At 31 December 2018	-
At 1 January 2018	-

Notes to the financial statements

for the year ended 31 December 2018

9. Investments

On 16 September 2016, the company acquired 100% of the share capital of Swedscot Limited for consideration of £340,000. Swedscot Limited is a company registered in England.

On 7 December 2016 the company made a capital contribution of £100,000 to return the company to a net asset position. On 12 December 2016, the company transferred the assets and liabilities of Swedscot Limited, via a trade and asset agreement. The company's investment in Swedscot Limited was impaired then to its remaining net asset value.

	<i>Investments</i> £000
Cost:	
At 1 January 2018 and 31 December 2018	10
Provisions for Impairment:	
At 1 January 2018 and 31 December 2018	<u>-</u>
Net book value:	
At 1 January 2018 and 31 December 2018	<u>10</u>

10. Property, plant and equipment

	<i>Freehold land and buildings</i> £000	<i>Plant and machinery</i> £000	<i>Fixtures and fittings</i> £000	<i>Motor vehicles</i> £000	<i>Total</i> £000
Cost					
At 1 January 2018	3,743	10,897	387	3	15,030
Additions	<u>79</u>	<u>701</u>	<u>-</u>	<u>-</u>	<u>780</u>
At 31 December 2018	<u>3,822</u>	<u>11,598</u>	<u>387</u>	<u>3</u>	<u>15,810</u>
Accumulated depreciation					
At 1 January 2018	1,099	6,472	365	3	7,939
Depreciation charge	<u>163</u>	<u>807</u>	<u>12</u>	<u>-</u>	<u>982</u>
At 31 December 2018	<u>1,262</u>	<u>7,279</u>	<u>377</u>	<u>3</u>	<u>8,921</u>
Net book value					
At 1 January 2018	<u>2,644</u>	<u>4,425</u>	<u>22</u>	<u>-</u>	<u>7,091</u>
At 31 December 2018	<u>2,560</u>	<u>4,319</u>	<u>10</u>	<u>-</u>	<u>6,889</u>

There are no assets held under hire purchase or finance lease contracts (2017 – nil). Depreciation has not been charged on freehold land. The value of freehold land was £487,000 (2017 – £487,000).

Notes to the financial statements

for the year ended 31 December 2018

11. Inventories

	2018	2017
	£000	£000
Finished goods and goods held for resale	<u>23,390</u>	<u>20,885</u>

The replacement cost of inventories is not materially different to the cost stated above.

Inventories are stated after provisions for impairment of £79,000 (2017 – £163,000).

12. Trade and other receivables

	2018	2017
	£000	£000
Amounts falling due within one year:		
Trade receivables	24,584	27,388
Amounts owed by group undertakings	757	40
Prepayments and accrued income	2,209	3,165
	<u>27,550</u>	<u>30,593</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Trade receivables are stated after provisions for impairment of £5,000 (2017 – £34,000).

In accordance with the requirements of IFRS 9 a credit loss allowance has been determined against trade debtors as follows:

	<i>Current</i>	<i>Past due</i>	<i>Total</i>
	£000	£000	£000
Expected loss rate	0.021%	0.041%	
Gross carrying amount: trade debtors	23,382	1,202	24,584
At 31 December 2018	<u>5</u>	<u>-</u>	<u>5</u>

Notes to the financial statements

for the year ended 31 December 2018

13. Payables: amounts falling due within one year

	2018	2017
	£000	£000
Trade payables	19,291	17,705
Amounts owed to group undertakings	34,711	27,425
Corporation tax	309	885
Amounts owed as group relief	-	-
Taxation and social security	2,146	2,079
Accruals and deferred income	3,563	4,127
	<u>59,990</u>	<u>52,221</u>

Amounts owed to group undertakings are unsecured and repayable on demand. Interest has been charged at 1.5% (2016 – 1.5%).

14. Provision for liabilities

	2018	2017
	£000	£000
Deferred taxation	<u>17</u>	<u>9</u>

14. Provision for liabilities (continued)

<i>Movement in deferred tax</i>	<i>Accelerated capital allowances</i>	<i>Pension contribution</i>	<i>Pension deficit</i>	<i>Total</i>
	£000	£000	£000	£000
As at 1 January	(357)	348	-	(9)
Amounts recognised in the profit and loss account	(8)	-	-	(8)
As at 31 December	<u>(365)</u>	<u>348</u>	<u>-</u>	<u>(17)</u>

The deferred tax liability is based on a corporation tax rate of 17% (2017 – 17%), as set out in note 7.

15. Called up share capital

	<i>Authorised, allotted and fully paid</i>	
	<i>Number</i>	<i>£000</i>
Ordinary shares of £1 each		
31 December 2017 and 31 December 2018	<u>2,000,000</u>	<u>2,000</u>

Notes to the financial statements

for the year ended 31 December 2018

16. Guarantees and other financial commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods.

	2018		2017	
	<i>Land and buildings</i> £000	<i>Other</i> £000	<i>Land and buildings</i> £000	<i>Other</i> £000
Within one year	1,514	289	1,444	308
Within two to five year	4,801	523	4,982	762
After 5 years	5,205	16	6,211	
	<u>11,520</u>	<u>828</u>	<u>12,637</u>	<u>1,070</u>

The SCA Group of companies, of which this Company is a member, has given joint and several guarantees to its principal clearing banker in respect of banking facilities. At the year end, the total facilities offered were £4,710,000 (2017 £4,710,000).

17. Capital commitments

Contracts placed for future capital expenditure not provided in the financial statements amounts to £543,000 (2017 – £8,000).

18. Ultimate parent company

The immediate parent undertaking is SCA Timber AB. The ultimate parent undertaking and controlling party is Svenska Cellulosa Aktiebolaget ('SCA'), a company incorporated in Sweden. This is the smallest and largest company to consolidate these financial statements. Copies of the parents consolidated financial statements may be obtained from the Secretary, Box 7827, and 10397 Stockholm, Sweden.

19. Related party transactions

Under FRS 101.18 j) and k) the company is exempt from Related Party Disclosures as required in paragraph 17 of IAS24 and those related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

There were no other related party transactions.