Huhtamaki (Lurgan) Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

Registered No: NI001006

Huhtamaki (Lurgan) Limited

Annual report and financial statements
For the year ended 31 December 2018

Huhtamaki (Lurgan) Limited

Directors and advisers

Directors

T Iitti
R Smith
S Coulter – appointed 27 Aug 2018
P Domin – resigned 27 Aug 2018

Company Secretary

F Losco – appointed 19 Feb 2018
J Esmann – resigned 07 Feb 2018

Registered office

40 Inn Road
Dollingstown
Craigavon
County Armagh
BT66 7JN

Registered Auditors

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT2 7DT

Huhtamaki (Lurgan) Limited

Strategic Report
for the year ended 31 December 2018

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

Principal activities

The company continues to be involved in the manufacture and sale of moulded pulp products in the United Kingdom and the Republic of Ireland. The directors aim to maintain the management policies, which have resulted in satisfactory levels of profit in an increasingly competitive market.

Review of business

Turnover has increased by 4% (2017: 8%) to £37,438,900 during the year (2017: £36,000,874).

The company has maintained its overall market share within the egg packaging market, which is expected to grow by 3% per annum. Cup carrier production continues to meet demand with projected market growth of 6.5 % per annum. Strategic plans for the next four years are being reviewed by the executive team of the company's ultimate parent undertaking Huhtamaki Oyj.

Business key performance indicators

The Directors continually review the most appropriate and effective measures of the Company's progress towards achieving its strategies and objectives. The following measures are continually monitored:

	2018	2017	Definition, method of calculation and analysis
On time delivery (%)	**93**	90	OTD is the number of order lines delivered both on time and in full as ordered by the customer. The improvement is the results of a project started in 2018 to focus on OTIF and customers satisfaction.
EBIT margin (%)	**14**	15	Earnings before interest and tax expressed as a percentage of net sales. 0.2 dropped due to inflationary cost on energy and transport.
Growth in sales (%)	**4**	8	Year on year sales growth expressed as a percentage. Growth in line with market growth and eggs consumption.

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 the competitive nature of the market within which it operates.

Brexit opens the company to the possibilities of import and export duties depending on future trade deals agreed, along with the possibility of disruption through the ports during a period of uncertainty. The company is preparing for Brexit by obtaining AEO status but having most of the turnover generated from customers based in the UK and by sourcing most its raw material locally, the impact should be limited.

On behalf of the Board

Losco

F Losco
Company Secretary

Date: 25 September 2019
Registration No: NI001006

Huhtamaki (Lurgan) Limited

Directors' Report
for the year ended 31 December 2018

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

Results, dividends and reserves

The Directors recommended and paid a final dividend of £5,000,000 (2017: £nil). The profit after tax of £4,550,000 (2017: profit of £4,703,000) is transferred to reserves.

Directors

The Directors who served since during the year were:

T Iitti
R Smith
S Coulter – appointed 27 Aug 2018
P Domin – resigned 27 Aug 2018

Future outlook

The Directors believe the business is well placed to continue supporting its customer's growth plans and will continue to invest in capital equipment to ensure future market trends will be met.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report and below.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making appropriate enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the financial statements.

Financial risk management

The Company's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks.

Its policy is to finance working capital or fixed assets through retained earnings or through borrowings at prevailing market interest rates.

Since the counterparty to all borrowings is a group company, there is minimal liquidity risks as regards these transactions.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the Company's receivables are shown on the face of the balance sheet. The Company limits individual trade receivable counterparty exposure to £1,500,000 and has credit insurance to mitigate the risk from trade receivables even further.

The Company also enters into forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its sources of finance.

Research and development activities

The Company undertakes limited research and development as this is a co-ordinated function carried out within the overall group. The Company is committed to research and development activities in order to maintain and to improve upon its commitment to quality and innovation.

Huhtamaki (Lurgan) Limited

Directors' Report (*continued*)
for the year ended 31 December 2018

Political donations

There were no political donations during 2018 (2017: £nil).

Disclosure of information to auditors

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 auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the Board

Losco

F Losco
Company Secretary

Date: 25 September 2019
Registration No: NI001006

Huhtamaki (Lurgan) Limited

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

The Directors are responsible for preparing the Strategic Report, the Directors' report and the Financial Statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgments 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.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUHTAMAKI (Lurgan) LIMITED

Opinion

We have audited the financial statements of Huhtamaki (Lurgan) Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of other comprehensive income, the Statement of changes in equity, the Balance Sheet and the related notes1 to 24, 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.

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 6, 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.

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

Michael Christie (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
Date: 27/9/19

Huhtamaki (Lurgan) Limited

Income statement
for the year ended 31 December 2018

Registered No: NI001006

	Notes	2018 £'000	2017 £'000
Turnover	3	**37,439**	36,001
Cost of sales		**(29,374)**	(28,288)
Gross profit		**8,065**	7,713
Sales and marketing costs		**(406)**	(519)
Administrative expenses		**(1,109)**	(1,201)
Other operating expenses		**(1,723)**	(1,271)
Operating profit	4	**4,827**	4,722
Interest receivable and similar income	5	**43**	21
Other Income	6	**623**	495
Profit before taxation		**5,493**	5,238
Tax on profit	9	**(943)**	(535)
Profit for the financial year		**4,550**	4,703

All the Company's results were attributable to continuing activities.

Statement of comprehensive income
for year ended 31 December 2018

Profit for the financial year	**4,550**	4,703
Other comprehensive income	**-**	-
Total comprehensive income for the year	**4,550**	4,703

Huhtamaki (Lurgan) Limited

Statement of changes in equity
for the year ended 31 December 2018

Registered No: NI001006

	Share Capital *£000*	*Retained earnings* *£000*	*Total Equity* *£000*
At 1 January 2017	1,568	14,681	16,249
Profit for the year	-	4,703	**4,703**
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	4,703	**4,703**
At 31 December 2017	**1,568**	**19,384**	**20,952**
Profit for the year	-	4,550	**4,550**
Other comprehensive income for the year	-	-	
Total comprehensive income for the year	-	4,550	**4,550**
Dividend paid	-	(5,000)	**(5,000)**
At 31 December 2018	**1,568**	**18,934**	**20,502**

Huhtamaki (Lurgan) Limited

Balance Sheet
at 31 December 2018

Registered No: NI001006

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	10	**14,721**	13,305
Intangible assets	11	**703**	886
Investments	12	**133**	133
		15,557	14,324
Current assets			
Stocks	13	**1,676**	1,304
Debtors	14	**13,836**	14,294
		15,512	15,598
Creditors: amounts falling due within one year	15	**(9,796)**	(8,161)
Net current assets		**5,716**	7,437
Total assets less current liabilities		**21,273**	21,761
Provisions for liabilities	9	**(771)**	(809)
Net assets		**20,502**	20,952
Capital and reserves			
Called up share capital	19	**1,568**	1,568
Retained earnings	20	**18,934**	19,384
Total equity		**20,502**	20,952

These financial statements were approved by the Board of Directors on ~~[illegible]~~ 25 September 2019 and were signed on its behalf by:

R.C. Smith

R Smith
Director

Date: 25th September 2019

S Coulter
Director

Date: 25th September 2019

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Huhtamaki (Lurgan) Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 25th September 2019 and the balance sheet was signed on the board's behalf by Richard Smith. Huhtamaki (Lurgan) Limited is limited by shares and is incorporated and domiciled in the UK. The registered address is 40 Inn Road, Dollingstown, Craigavon, Co. Armagh, BT66 7JN.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

Huhtamaki (Lurgan) Limited is a qualifying entity under FRS 101 as it is a member of a group of which the parent, Huhtamaki OYJ, prepares publically available consolidated financial statements which are intended to give a true and fair view. Huhtamaki (Lurgan) Limited is included within these consolidated financial statements. These consolidated financial statements may be obtained from Revontulenkuja 1, Fin-02100 Espoo, Finland.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Huhtamaki (UK) Holdings Limited. These financial statements cover the individual Company and not the group entities.

The results of Huhtamaki (UK) Holdings Limited are included in the consolidated financial statements of Huhtamaki Oyj which are available from Revontulenkuja 1, Fin-02100 Espoo, Finland.

The principal accounting policies adopted by the Company are set out in note 2.

2. Principal accounting policies

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018. The company applied IFRS9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time in 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of IFRS 7 Financial Instruments: Disclosures, as the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

(b) the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;

(c) the requirements of IAS 7 Statement of Cash Flows;

(d) the requirements of paragraphs 10(d), 16, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;

(e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(g) the requirements in IAS 24 Related Party Disclosures to disclose 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;

(h) The requirements of paragraph 45 (b) and 46 to 52 of IFRS 2 Share Based Payment, because the share based payment arrangement concerns the instruments of another group entity, the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;

(i) the requirements of paragraphs 110, 113 (a), 114, 118, 119 (a) - (c), 120 – 127, 129 of IFRS 15 Revenue from Contracts with Customers.; and

(j) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

   (i) paragraph 79(a) (iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
   (iii) paragraph 118(e) of IAS 38 Intangible Assets.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

2. Principal accounting policies (continued)

Changes in Accounting Policies – New Standards

The company applied IFRS9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time in 2018. Details of the new accounting policies applied under both of these standards are set out below.

IFRS9 replaces IAS39 'Financial Instruments: Recognition and Measurement' and it applies to all three aspects of financial instruments: classification and measurement; impairment; and hedge accounting. The company applied IFRS9 retrospectively. The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

IFRS15 supersedes IAS11 'Construction Contracts' and IAS18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers. IFRS15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The company adopted IFRS15 using the full retrospective method of adoption. The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

Going concern

The company's business activities are set out in the business review on page 3. The company has positive financial resources and has generated a current year profit. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Research and development

The Company undertakes limited research and development as this is a co-ordinated function carried out within the overall group. The Company is committed to research and development activities in order to maintain and to improve upon its commitment to quality and innovation. Research expenditure is written off against profits in the year in which it is incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Otherwise development expenditure is written off against profits in the year in which it is incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account 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 balance sheet 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 undiscounted and 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 balance sheet date.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

2. Principal accounting policies (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required, these are made prospectively.

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the profit and loss account in the period of derecognition.

Depreciation

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:

- plant and machinery 5-15 years
- industrial and motor vehicles 4 years
- improvements to industrial buildings 11 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date and where adjustments are required these are made prospectively.

Intangible assets

The cost of acquiring or developing computer software is capitalised and amortised on a straight-line basis over the directors' estimate of its useful economic life of 5 years. Costs that qualify for capitalisation include both internal and external costs but are limited to those that are directly related to the specific software development project. The carrying value of computer software is reviewed for impairment where events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

The carrying values of fixed asset investments are held at historical cost less any applicable provision for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Leases

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Leases in which the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Lease payments are accounted for as described below.

Operating lease payments
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. Lease incentives received are recognised in the profit and loss account over the life of the lease as an integral part of the total lease expense.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

2. Principal accounting policies (continued)

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Stocks

Stocks are stated at the lower of cost and net realisable value. 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. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Foreign currency

Transactions in foreign currencies are initially 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 income statement.

Revenue Recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The company has concluded that it is the principal in its revenue arrangements as it typically controls the goods or services before transferring them to the customer.

Revenue from the sale of goods (i.e. plastic and paper container products) is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. While the performance obligation is satisfied upon delivery of the goods, payment is generally due within 30-90 days from delivery. The company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated, including extended warranty arrangements. The company also considers the effects of variable consideration and the existence of any significant financing components.

All revenue recognised in the year relates to performance obligations satisfied in the year.

The Company has no material contract assets or liabilities other than trade debtors as disclosed in note 14.

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.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

2. Principal accounting policies (continued)

Employee benefits (continued)

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Share-based payment transactions

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Dividend income is recognised in the profit and loss account on the date the entity's right to receive payment is established.

Foreign currency gains and losses are reported on a net basis.

Provisions for liabilities

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 determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the income statement over the estimated useful economic lives of the assets to which they relate. Revenue grants are credited to the income statement at the same period as the expenditure to which they relate.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

2. Principal accounting policies (continued)

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables, the company initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component are measured at transaction price, in line with related revenue recognition criteria. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

Financial assets at amortised cost are subsequently measured using the effective interest rate method (EIR). Gains and losses are recognised in profit or loss when the asset is derecognised.

The Company's financial assets at amortised cost includes include cash at bank and in hand, trade debtors and amounts owed by group undertakings.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade debtors, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or derivatives designed as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The company's financial liabilities include trade and other creditors, and derivative financial instruments (forward currency contracts).

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

2. Principal accounting policies (continued)

Financial Instruments (continued)

The measurement of financial liabilities classified as interest bearing loans and borrowings is as follows:

- After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.
- Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

Derivative financial instruments

The Company uses derivative financial instruments such as forward currency contracts and options to hedge its risks associated with foreign currency fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value, with changes in fair value recognised within the income statement. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of foreign currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. In the course of preparing the Company's financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than in respect of those involving estimates as below. The following judgements involving estimates have had the most significant effect on amounts recognised in the financial statements:.

Depreciation and amortisation
Judgement is used in assessing useful lives and residual values of property, plant and equipment. The assets are depreciated or amortised over their estimated useful lives to their residual values.

3. Turnover

An analysis of turnover by different classes of business and by geographical market has not been provided because, in the opinion of the directors, the disclosure of such information would be seriously prejudicial to the interest of the company.

	2018 £'000	2017 £'000
Sale of goods	37,439	36,001
Total turnover	37,439	36,001

4. Operating profit

Operating profit is stated after charging / (crediting):

		2018 £'000	2017 £'000
Net foreign exchange differences		(9)	(84)
Costs of stocks recognised as an expense		14,514	13,877
Operating lease rentals	- plant and machinery	280	270
	- land and buildings	438	438
Depreciation and other amounts written off tangible fixed assets		1,795	1,819
Amortisation of intangible fixed assets (included with Cost of Sales)		183	30
Auditors' remuneration: Audit of these financial statements		23	26

Non audit services provided by the auditors in 2018 amounted to £nil (2017: £nil)

5. Other interest receivable and similar income

	2018 £'000	2017 £'000
Net foreign exchange gain	43	21
	43	21

6. Other income

	2018 £'000	2017 £'000
R&D expenditure credit	237	230
Grants receivable and management charges	386	265
	623	495

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

7. Directors' emoluments

	2018 £'000	2017 £'000
Remuneration	115	110
Company contributions paid to defined contribution pension schemes	14	14

The number of directors accruing benefits under money purchase schemes during the year was 1 (2017: 1).

Certain directors holding office at the year end are not remunerated through the company. An apportionment of their remuneration based on hours worked in the company has not been carried out for inclusion in the above disclosure as the amounts are considered to be negligible.

8. Employee information

The average number of persons employed by the Company during the year was:

	2018 Number	2017 Number
By activity:		
Production	**182**	**176**
Distribution	**20**	**20**
Administration	**30**	**32**
	232	**228**

	2018 £'000	2017 £'000
Staff costs (for the above persons):		
Wages and salaries	**7,571**	**7,253**
Social security costs	**679**	**668**
Other pension costs	**301**	**269**
	8,551	8,190

Included in Wages and salaries is a total expense of share-based payments of £nil (2017: £nil).

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

9. Tax

(a) UK corporation tax

Analysis of tax charge in year:

	2018	2017
	£'000	£'000
Current tax on income for the period	1,082	977
Adjustments in respect of prior periods	(101)	(666)
Total current tax	981	311

Deferred tax

Origination/reversal of temporary differences	(24)	37
Adjustment in respect of previous years	(17)	237
Impact of change in tax rates	3	(50)
Total deferred tax	(38)	224
Tax on profit	943	535

(b) Reconciliation of tax charge

The effective tax rate for the year is the lower than the standard rate of corporation tax in the United Kingdom of 19% (2017: 19.25%). The difference is explained below:

	2018	2017
	£'000	£'000
Profit before tax	5,493	5,238
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1,044	1,008
Effects of:		
Impact of change in tax rates	3	(50)
Expenses not deductible for tax purposes	14	14
Non Taxable income	-	(9)
Adjustments to tax charge in respect of previous periods	(118)	(428)
	943	535

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

9. Tax (continued)

(c) Elements of Deferred tax

The deferred tax credit noted above arises from the following:

	1 January 2018	Recognised in profit and loss	31 December 2018
Accelerated capital allowances	809	(38)	771
	809	(38)	771

(d) Change in tax rate

Reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was enacted on 26 October 2015. Finance Bill 2016 further reduced the rate to 17% from 1 April 2020. Together this will reduce the company's future tax charges accordingly

10. Tangible fixed assets

	Assets under construction £'000	Plant, machinery and equipment £'000	Improvements to Industrial Buildings £'000	Motor vehicles £'000	Total £'000
Cost					
Balance at 1 January 2018	744	37,793	896	1	39,434
Additions	3,211	-	-	-	3,211
Transfer	(1,410)	1,350	60	-	-
Balance at 31 December 2018	2,545	39,143	956	1	42,645
Depreciation and impairment					
Balance at 1 January 2018	-	25,872	256	1	26,129
Depreciation charge for the year	-	1,711	84	-	1,795
Balance at 31 December 2018	-	27,583	340	1	27,924
Net book value					
At 1 January 2018	744	11,921	640	-	13,305
At 31 December 2018	**2,545**	**11,560**	**616**	**-**	**14,721**

The value included in Assets under construction relates to expenditure for plant in the course of construction.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

11. Intangible fixed assets

	Software £'000
Cost	
Balance at 1 January 2018	916
Acquisitions	
Balance at 31 December 2018	916
Depreciation and impairment	
Balance at 1 January 2018	30
Depreciation charge for the year	183
Balance at 31 December 2018	213
Net book value	
At 1 January 2018	886
At 31 December 2018	703

12. Fixed asset investments

	Shares in group undertakings £'000
Cost	
At 1 January 2017 and 2018	133
At 31 December 2017 and 2018	133

The investment at 31 December 2018 represents 100% of the ordinary 'A', 'B' and deferred shares of Huhtamaki (Lisburn) Limited, a company incorporated in the UK. With registered office address at 41 Inn Road, Dollingstown, Lurgan, Co. Armagh BT66 7JW

13. Stocks

	2018 £'000	2017 £'000
Raw materials and consumables	**1,029**	810
Finished goods and goods for resale	**647**	494
	1,676	1,304

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

14. Debtors

	2018	2017
	£'000	£'000
Trade debtors	4,803	5,340
Amounts owed by group undertakings	8,627	8,486
Prepayments and accrued income	406	468
	13,836	14,294

Amounts owed by group undertakings are settled on 60 days terms.

15. Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	2,533	2,658
Amounts owed to group undertakings	2,491	1,874
Corporation tax	1,899	1,156
Other taxation and social security costs	809	955
Accruals and deferred income	2,064	1,518
	9,796	8,161

Trade creditors are non-interest bearing and are normally settled on 45 days terms. Other creditors are non-interest bearing and have an average term of 45 days. Amounts owed to group undertakings are settled on 60 days terms.

16. Employee benefits

Defined contribution schemes

The company participates in two defined contribution schemes; one for monthly paid managerial, supervisory and clerical staff and the other for hourly paid skilled and semi-skilled employees. Contributions to the schemes are independently administered by insurance companies. Both schemes are designed to provide death and retirement benefits for eligible employees and are of the money purchase type with defined contributions determined by the trustees of the scheme. The unpaid contributions outstanding at the year end were £55,629 (2017 – £35,812). The pension cost charged for the year represents contributions payable by the company to the funds and amounted to £300,543 (2017 – £269,105).

Share based payments

Share options were granted to directors of the Company in 2012, 2015 and 2017. The performance share arrangement offers a possibility to earn the shares in the parent company as remuneration for achieving established targets. After each three-year performance period the achieved performances (group's earnings per share – EPS) is measured against the set target level and the Board of Directors decide upon the reward payment. As part of the reward, a cash payment equivalent to taxes and tax-like charges arising from the reward may be granted under each three-year plan. Participants to the plan are required to hold at least half of the shares received until he/she holds shares received from the performance share plans corresponding in aggregate to the value of his/her six months' gross base salary. The ownership requirement applies until termination of employment or service.

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

17. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018		2017	
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	*£*	*£*	*£*
Operating leases which expire:				
Within one year	438	97	438	37
In two to five years	1,984	32	1,926	189
Over five years	496	–	992	–
	2,918	129	3,356	226

The Company has entered into commercial leases on certain properties, motor vehicles and items of machinery. These leases have an average duration of between 3 and 10 years. Only the property lease agreements contain an option for renewal, with such options being exercisable three months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

18. Contingent liabilities

There is a contingent liability in respect of certain government grants if the company does not comply with the terms of the Letter of Offer. The possibility of any reimbursement is considered to be remote.
The Company has an outstanding bank guarantee of £100,000 (2017 - £100,000).
The Company is subject to a cross guarantee in respect of the bank facilities of its parent company Huhtamaki Oyj.

19. Authorised, issued and called up share capital

	2018	2017
	£'000	£'000
Authorised		
1,552,000 ordinary shares at 1p each	**16**	16
432,480 unclassified shares at £1 each	**-**	-
1,552,000 deferred shares of £1 each	**1,552**	1,552
	1,568	1,568
Allotted, called up and fully paid		
1,552,000 ordinary shares at 1p each	**16**	16
432,480 unclassified shares at £1 each	**-**	-
1,552,000 deferred shares of £1 each	**1,552**	1,552
	1,568	1,568
Shares classified in total equity	**1,568**	1,568
	1,568	1,568

Huhtamaki (Lurgan) Limited

Notes to the financial statements for the year ended 31 December 2018

19. Authorised, issued and called up share capital (continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.
The deferred shares of £1 are not entitled to participate in any profits by way of dividend. On a winding up of the company, the holders of the deferred shares rank in priority after the holders of the ordinary shares with the maximum amount receivable being the amount paid up on each share. The holders of the deferred shares have the right to receive notice of and be present at any General Meetings of the company but have no right to speak or to vote at any such meetings.

20. Reserves

Retained Earnings
This reserve records retained earnings and accumulated losses

21. Ultimate parent undertaking and immediate parent company

Huhtamaki (Lurgan) Limited is a 100% subsidiary of Huhtamaki (UK) Holdings Limited, a company incorporated in England. Huhtamaki (UK) Holdings Limited is considered to be the immediate controlling party.

Huhtamaki Oyj, incorporated in Finland, is considered to be the ultimate parent company and controlling party. The only group in which the results of the Company are consolidated is that headed by Huhtamaki Oyj. The consolidated financial statements of this group are available to the public and may be obtained from Huhtamaki Oyj, Revontulenkuja 1, Fin-02100 Espoo, Finland.

22. Cash flow hedges

The Company had forward currency hedging contracts outstanding at 31 December 2018 of £105,491, which are included within Amounts owed by group undertakings (2017: £nil).

23. Capital commitments

At 31 December 2018, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £5,348,000 (2017: £144,427).

24. Off-balance sheet arrangements

The Company enters into operating lease arrangements for the hire of buildings and plant & equipment as these arrangements are a cost effective way of obtaining the short-term benefits of these assets. The annual commitments under these arrangements are disclosed in Note 17. There are no other material off-balance sheet arrangements.