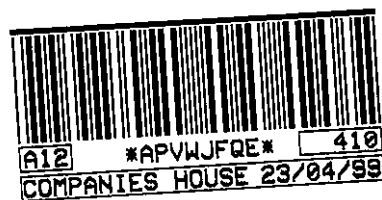


**ARJO WIGGINS FINE PAPERS LIMITED**

Registered Number: 961440

**Directors' report and financial statements  
for the year ended 31 December, 1998**



# **ARJO WIGGINS FINE PAPERS LIMITED**

## **Directors' report and financial statements for the year ended 31 December, 1998**

<b>Contents</b>	<b>Pages</b>
Directors' report	1-4
Statement of directors' responsibilities for the financial statements	5
Report of the auditors	6-7
Profit and loss account	8
Balance sheet	9
Notes to the financial statements	10-18

The directors present their report and audited financial statements for the year ended 31 December, 1998.

**Principal activities**

The Company is engaged in the manufacture and distribution of paper and paper products.

**Review of business and future developments**

Both the level of business and the year end financial position were satisfactory and the directors expect no material change in the level of activity for the foreseeable future.

**Results and dividends**

The audited accounts for the year ended 31 December, 1998 are set out on pages 8 to 18.

The directors recommend that a final dividend of £5.845m be declared on the ordinary shares for the year ended 31 December, 1998 which, together with the interim dividend already paid, gives a total for the year of £10.845m.

**Payment of creditors**

The Company's policy in respect of all suppliers is to fix terms of payment when agreeing the terms of business transactions, to ensure that the supplier is aware of those terms and to abide by the agreed terms of payment when the supplier has satisfactorily provided the goods or services in accordance with the terms of the contract.

The average number of days taken to pay suppliers was 56.

**Directors**

The directors holding office during the year were:

M G Baker  
C J Britchford  
F C Crome  
J H Cubbon  
S A Logan  
I Simpson  
A H Swainston

# Arjo Wiggins Fine Papers Limited

## Directors' report

### Directors' interests

### Share capital and share option schemes

According to the Company's register, no director of the Company, nor members of his family as defined by the Companies Act 1985, had any interest in the shares of the Company.

The interests of the directors in the share capital and share option schemes of Arjo Wiggins Appleton p.l.c. or its subsidiaries at 31 December, 1998, as shown in the register kept by the Company, are set out below except for the interests of Mr A H Swainston which are disclosed in the accounts of Arjo Wiggins Fine Papers Holdings Limited, the Company's parent company, of which he is a director.

### Arjo Wiggins Appleton p.l.c.

Share details	Number of Shares/Options				
	Outstanding at 31.12.97	Bought/ Granted	Sold/ Exercised	Cancelled/ Lapsed	Outstanding at 31.12.98
<b>M G Baker</b>					
AWA 25p Shares	722	-	-	-	722
SAYE Options	8,325	-	-	-	8,325
Executive Options	18,000	20,000	-	-	38,000
<b>C J Britchford</b>					
AWA 25p Shares	2,146	10,863	12,363	-	646
SAYE Options	17,364	6,813	10,863	6,501	6,813
Executive Options	34,210	40,000	-	-	74,210
<b>F C Crome</b>					
AWA 25p Shares	8,553	-	8,553	-	-
Executive Options	18,000	20,000	-	-	38,000
<b>J H Cubbon</b>					
AWA 25p Shares	785	5,930	4,215	-	2,500
SAYE Options	4,297	2,261	-	-	6,558
Executive Options	21,750	20,000	-	-	41,750
<b>S A Logan</b>					
AWA 25p Shares	3,621	8,765	6,590	-	5,796
SAYE Options	15,999	3,117	6,496	-	12,620
Executive Options	18,000	15,000	-	-	33,000
<b>I Simpson</b>					
Executive Options	22,500	20,000	-	-	42,500

### **Research and development**

All research and development for the Company is carried out by a fellow subsidiary company.

### **Employment policies**

The Company seeks to ensure that all its businesses operate sound and progressive employment policies to the mutual benefit of employees and the Company.

The Company places considerable importance on consultation and communication with all employees. Managers are required to develop appropriate communication procedures to ensure that all employees are properly informed of developments within the businesses to which they belong.

The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their aptitudes and abilities. Every effort is made to continue the employment of people who become disabled, including the provision of additional facilities and training where appropriate. Opportunities for career development and promotion are available to all employees.

### **The millennium date change**

The Company is dependent on its computing systems for the proper running of commercial, manufacturing, distribution and accounting functions. In addition, the manufacturing plants are dependent on process control equipment for continued operation. A full inventory of computing systems, carried out as part of the programme to prepare for the computer problems associated with the date change in the new millennium, has identified the extent of this dependence. The Company also recognises the interdependence with its trading partners and the need for the continued operation of their computer systems.

The Company participates fully in the extensive programme put in place within the Arjo Wiggins Appleton Group to avoid or reduce to a minimum any adverse impact on the Group's businesses caused by problems with their own systems arising from the date change in the new millennium. This programme, involving both internal and external resources, is regularly monitored at a senior level and there is independent external verification of the progress made. A continuous and developing dialogue is taking place with the Company's principal trading partners in order first to identify and, second, to endeavour to manage risks arising from computer systems outside of the Company's control.

Cumulative revenue costs associated with the year 2000 issue, incurred up to 31 December, 1998, amounted to £2.5m, of which £0.9m related to internal costs. Total projected revenue costs, including those incurred to date, are estimated to be £3.2m, of which £1.3m are internal costs. There are no capital costs involved.

## Arjo Wiggins Fine Papers Limited

### Directors' report

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#### The Euro

In the short term the introduction of the Euro is unlikely to have any significant impact on the Company.

The total projected revenue costs, including £19k incurred to date, are estimated to be £110k. The Company is not expecting to incur any capital costs.

#### Auditors

The Company's auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the shareholders of the Company appointed the new firm, PricewaterhouseCoopers, as auditors.

Pursuant to Section 386 of the Companies Act 1985, an Elective Resolution has been passed by the Company dispensing with the requirement to appoint auditors annually. Therefore PricewaterhouseCoopers are deemed to continue as auditors to the Company.

By order of the board



A J Birchall  
Secretary

2 March, 1999

Registered office:

Gateway House,  
Basing View,  
Basingstoke,  
Hampshire, RG21 4EE.

**Arjo Wiggins Fine Papers Limited**

**Statement of directors' responsibilities for the financial statements**

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The directors are required by UK company law to prepare, for each financial year, financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss and total recognised gains and losses for that period.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements for the year ended 31 December, 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

By order of the board



A J Birchall.

Secretary

2 March, 1999

**Arjo Wiggins Fine Papers Limited**  
**Report of the auditors**

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**Auditors' report to the members of Arjo Wiggins Fine Papers Limited**

We have audited the financial statements on pages 8 to 18 which have been prepared under the accounting policies set out on pages 10 to 11.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report, including as described on page 5 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



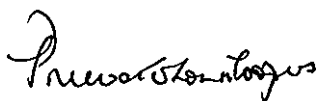
**Arjo Wiggins Fine Papers Limited**

**Report of the auditors**

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**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December, 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

**Chartered Accountants and Registered Auditors**

1 Embankment Place

London, WC2N 6NN

27 June, 1999

**Arjo Wiggins Fine Papers Limited****Financial statements**

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**Profit and loss account****for the year ended 31 December, 1998**

Note		1998 £m	1997 £m
2	<b>Turnover</b>	<b>213.6</b>	223.1
3	Net operating expenses	(188.4)	(204.9)
	<b>Operating profit</b>	<b>25.2</b>	18.2
6	Other investment income	7.8	1.0
	<b>Profit on ordinary activities before taxation</b>	<b>33.0</b>	19.2
7	Tax on profit on ordinary activities	(1.2)	(5.3)
	<b>Profit on ordinary activities after taxation</b>	<b>31.8</b>	13.9
8	Dividends	(10.8)	(6.2)
	<b>Retained profit for the year</b>	<b>21.0</b>	7.7

All turnover and operating profit arose from continuing operations.

The Company has no recognised gains and losses other than those included in the profit and loss account above and, therefore, no separate statement of total recognised gains and losses has been presented.

**Reconciliation of movements in shareholders' funds**

	1998 £m	1997 £m
<b>Profit on ordinary activities after taxation</b>	<b>31.8</b>	13.9
Dividends	(10.8)	(6.2)
<b>Net addition to shareholders' funds</b>	<b>21.0</b>	7.7
Shareholders' funds at the beginning of the year	83.0	75.3
<b>Shareholders' funds at the end of the year</b>	<b>104.0</b>	83.0

# Arjo Wiggins Fine Papers Limited

## Financial statements

### Balance sheet

at 31 December, 1998

Note		1998 £m	1997 £m
9	<b>Tangible fixed assets</b>	<b>56.2</b>	<b>54.4</b>
	<b>Current assets</b>		
10	Stocks	15.0	21.6
11	Debtors	70.0	55.7
12	Current asset investments	36.5	23.5
	Cash at bank and in hand	11.8	8.0
		<b>133.3</b>	<b>108.8</b>
	<b>Creditors: amounts falling due within one year</b>		
13	Short-term borrowings	(10.1)	(2.8)
14	Other creditors	(72.4)	(67.1)
		<b>(82.5)</b>	<b>(69.9)</b>
	<b>Net current assets</b>	<b>50.8</b>	<b>38.9</b>
	<b>Total assets less current liabilities</b>	<b>107.0</b>	<b>93.3</b>
15	<b>Provisions for liabilities and charges</b>	<b>(3.0)</b>	<b>(10.3)</b>
	<b>Net assets</b>	<b>104.0</b>	<b>83.0</b>
	<b>Capital and reserves</b>		
17	Called-up share capital	25.0	25.0
18	Share premium account	50.3	50.3
18	Profit and loss account	28.7	7.7
	<b>Shareholders' funds (equity interests)</b>	<b>104.0</b>	<b>83.0</b>

The financial statements on pages 8 to 18 were approved by the board of directors on  
**2 March**, 1999 and were signed on its behalf by:



Director

**1. Accounting policies**

The financial statements have been prepared in accordance with accounting standards applicable in the United Kingdom. A summary of the principal accounting policies, which have been applied consistently, is set out below.

**Basis of accounting**

The financial statements are prepared on the historical cost basis of accounting.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the related forward contract rate. All monetary assets and liabilities expressed in foreign currencies and not covered by forward contracts are retranslated into sterling at rates of exchange ruling at the end of the financial year. Differences between the translated trading transactions and subsequent cash settlements, or retranslated balances, are taken to the profit and loss account.

**Turnover**

Turnover comprises sales to customers, net of rebates and excluding value added and other sales taxes.

**Pension costs**

The expected cost of providing pensions, as calculated periodically by independent actuaries, is charged to the profit and loss account so as to spread that cost, adjusted for any actuarial valuation deficit or available surplus, over the expected average remaining service lives of current employees. The common group contribution rate is based on pension costs across the participating companies of the Arjo Wiggins Appleton group as a whole.

**Research and development**

All research and development expenditure is charged to the profit and loss account as incurred.

**Deferred taxation**

Provision is made for deferred taxation in respect of timing differences, using the liability method, to the extent that it is probable that the liability or asset will crystallise.

### **Tangible fixed assets**

Tangible fixed assets are valued at cost less depreciation.

Depreciation is calculated to write off the cost of tangible fixed assets over their estimated useful economic lives by equal instalments. The principal useful economic lives applied in calculating depreciation are as follows:

Freehold buildings	-	between 25 and 40 years
Leasehold properties	-	as for freehold buildings, or over the period of the leases if less
Plant and machinery	-	between 8 and 20 years
Vehicles and office equipment	-	between 3 and 10 years

No depreciation is provided on freehold land.

### **Leases**

Rentals payable under operating leases are charged to the profit and loss account as incurred.

### **Stocks**

Stocks are valued at the lower of cost, including attributable overheads, and net realisable value.

## **2. Turnover**

The analysis by geographical area of the Company's turnover is set out below:

	1998 £m	1997 £m
United Kingdom	62.7	69.5
Other European countries	119.5	108.5
Other countries	31.4	45.1
	<u>213.6</u>	<u>223.1</u>

**Arjo Wiggins Fine Papers Limited****Notes to the financial statements****3. Operating expenses**

	1998 £m	1998 £m	1997 £m	1997 £m
Changes in stocks of finished goods and work in progress		6.6		(3.5)
Raw materials, consumables and other external charges		114.2		124.6
Staff costs (see note 5)		31.0		32.9
Depreciation of tangible fixed assets				
normal charge	6.1		6.1	
provision (release)/charge	(3.3)		3.3	
Total depreciation charge for year (see note 9)		2.8		9.4
Rationalisation and restructuring costs		(1.9)		6.6
Other operating charges		35.7		34.9
		<u>188.4</u>		<u>204.9</u>
Other operating charges include:				
Operating lease rentals:				
- hire of plant and machinery		0.2		0.8
- hire of other assets		0.9		0.9
Auditors' remuneration		0.1		0.1

**4. Directors' emoluments**

	1998 £000	1997 £000
Aggregate amount of emoluments	689	650

Retirement benefits are accruing to 7 directors under defined benefit schemes.

Three directors exercised share options.

The emoluments of the highest paid director were £174,596 (1997: £163,934). He participates in a defined benefit retirement scheme and his accrued pension at the end of 1998 was £55,398 per annum (1997: £49,165). During the year he exercised share options.

**5. Employee information**

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

	1998 Number	1997 Number
Operatives	776	839
Staff	499	509
	<u>1,275</u>	<u>1,348</u>

# Arjo Wiggins Fine Papers Limited

## Notes to the financial statements

Their employment costs were:

	1998 £m	1997 £m
Wages and salaries	26.7	28.4
Social security costs	2.7	2.8
Other pension costs	1.6	1.7
	<u>31.0</u>	<u>32.9</u>

### 6. Other investment income

	1998 £m	1997 £m
Interest on loans to Group undertakings	7.2	0.6
Deposit interest and other investment income	0.6	0.4
	<u>7.8</u>	<u>1.0</u>

### 7. Taxation on profit on ordinary activities

	1998 £m	1997 £m
UK Corporation tax charge at 31% (1997: 31.5%)	8.9	8.7
Less: Group relief surrendered from other group undertakings	(8.9)	(4.4)
Add: consideration for above group relief	-	3.3
Less: ACT surrendered to the Company by Arjo Wiggins Appleton Holdings Limited for no consideration	-	(1.3)
	<u>-</u>	<u>6.3</u>
Deferred tax charge/(credit) at 31% (1997: 31.5%)	2.3	(0.9)
Prior year adjustments:		
- current tax	2.3	-
- ACT effect	(2.9)	-
- deferred tax	(0.5)	(0.1)
	<u>(1.1)</u>	<u>(0.1)</u>
	<u>1.2</u>	<u>5.3</u>

# Arjo Wiggins Fine Papers Limited

## Notes to the financial statements

### 8. Dividends

	1998 £m	1997 £m
Interim dividend paid	5.0	-
Final dividend proposed	5.8	6.2
	<u>10.8</u>	<u>6.2</u>

### 9. Tangible fixed assets

	Freehold land and buildings £m	Plant machinery and equipment £m	Assets in course of construction £m	Total £m
<b>Cost</b>				
At 31 December, 1997	7.9	116.2	3.0	127.1
Assets brought into use during the year	-	2.6	(2.6)	-
Additions	0.6	3.7	0.3	4.6
Disposals	-	(0.1)		(0.1)
<b>At 31 December, 1998</b>	<b>8.5</b>	<b>122.4</b>	<b>0.7</b>	<b>131.6</b>
<b>Depreciation</b>				
At 31 December, 1997	3.1	69.6	-	72.7
Charge for year	0.2	2.6		2.8
Disposals	-	(0.1)		(0.1)
<b>At 31 December, 1998</b>	<b>3.3</b>	<b>72.1</b>	<b>-</b>	<b>75.4</b>
<b>Net book values</b>				
<b>At 31 December, 1998</b>	<b>5.2</b>	<b>50.3</b>	<b>0.7</b>	<b>56.2</b>
At 31 December, 1997	4.8	46.6	3.0	54.4

### 10. Stocks

	1998 £m	1997 £m
Raw materials	4.0	4.4
Consumable stores	2.2	2.2
Work-in-progress	0.7	1.1
Finished goods	8.0	12.8
Goods purchased for resale	0.1	1.1
	<u>15.0</u>	<u>21.6</u>



**Arjo Wiggins Fine Papers Limited**  
**Notes to the financial statements**

**11. Debtors**

	1998 £m	1997 £m
<b>Amounts falling due within one year:</b>		
Trade debtors	18.2	20.8
Amounts owed by fellow subsidiary undertakings	45.8	28.6
Corporate taxation recoverable	0.4	-
Deferred tax (see note 15)	1.1	2.9
Other debtors	3.6	2.5
Prepayments and accrued income	0.9	0.9
	<u>70.0</u>	<u>55.7</u>

**12. Current asset investments**

	1998 £m	1997 £m
Amounts due from a fellow subsidiary undertaking (interest-bearing)	36.5	23.5

**13. Borrowings**

	1998 £m	1997 £m
<b>Short-term</b>		
Loans from group undertakings		
- fellow subsidiary undertakings	7.5	0.8
Unsecured bank loans and overdrafts	2.6	2.0
	<u>10.1</u>	<u>2.8</u>

Short-term borrowings are repayable on demand and bear interest calculated on the basis of market rates.

**14. Other creditors**

**Amounts falling due within one year**

	1998 £m	1997 £m
Trade creditors	16.5	14.4
Amounts owed to fellow subsidiary undertakings	39.5	34.1
Corporation Tax	-	3.0
Other taxation and social security	0.6	0.5
Dividends payable	5.8	6.2
Other creditors	1.4	1.1
Accruals and deferred income	8.6	7.8
	<u>72.4</u>	<u>67.1</u>

15. Provisions for liabilities and charges

	Deferred taxation £m	Restructuring £m	Other £m	Total £m
At 31 December, 1997	-	9.0	1.3	10.3
Deferred taxation asset included in debtors (see note 11)	(2.9)			(2.9)
Net deferred taxation balance at 31 December, 1997	(2.9)			
Charged/(released) to profit and loss account	2.3	(1.9)	(0.5)	(0.1)
Utilised	(0.5)	(4.3)	(0.6)	(5.4)
Net deferred taxation balance at 31 December, 1998	(1.1)			
Deferred taxation asset included in debtors (see note 11)	1.1			1.1
At 31 December, 1998	-	2.8	0.2	3.0

Deferred taxation

Deferred taxation accounted for in the financial statements, and the potential liability, including the amount which has been accounted for, are as follows:

	Potential liability		(Asset) accounted for	
	1998 £m	1997 £m	1998 £m	1997 £m
<b>Tax effect of timing differences at 30.25% (1997: 31%) because of:</b>				
Excess of capital allowances over depreciation	6.7	8.9	-	-
Other timing differences	(1.1)	(2.9)	(1.1)	(2.9)
	5.6	6.0	(1.1)	(2.9)

**16. Pension obligations**

The majority of the Company's employees are members of The Wiggins Teape Pension Scheme, a defined benefit scheme with assets held in a separate trustee-administered fund.

Details of the latest actuarial valuation of the scheme are shown in the consolidated financial statements of Arjo Wiggins Appleton p.l.c.

**17. Called-up share capital**

	Number	£m
<b>Authorised, allotted and fully paid Ordinary shares of £1 each</b>		
At 31 December, 1998 and 1997	<b>25,010,000</b>	<b>25.0</b>

**18. Reserves**

	Share premium account £m	Profit and loss account £m
At 31 December, 1997	50.3	7.7
Retained profit for the year	-	21.0
<b>At 31 December, 1998</b>	<b>50.3</b>	<b>28.7</b>

**19. Capital commitments**

Capital expenditure contracted for, but not provided for in the financial statements, amounted to £0.6m (1997: £2.4m).

**20. Financial commitments**

At 31 December, 1998 there were annual commitments under non-cancellable operating leases as follows:

	1998 £m	1997 £m
Leases in respect of land and buildings, which expire:		
- between two and five years	0.1	0.1
- in five years or more	0.5	0.5
	<b>0.6</b>	<b>0.6</b>

**21. Contingent liabilities**

The Company is a participant in a cash-pooling arrangement operated by its banker. The Company has agreed to secure the overdraft balances of other UK companies in the Arjo Wiggins Appleton group with the bank, subject to a maximum amount equal to the aggregate of the cash balances of the Company with the bank.

The Company has given an undertaking to its bankers in respect of a guarantee given by them to HM Customs and Excise which amounted to £0.6m.

**22. Cash flow**

The Company is a wholly-owned subsidiary of Arjo Wiggins Appleton p.l.c. and the cash flows of the Company are included in the consolidated cash flow statement of Arjo Wiggins Appleton p.l.c. Consequently, the Company is exempt under the terms of Financial Reporting Standard (FRS) No. 1 (Revised) from publishing a cash flow statement.

**23. Related party transactions**

Under an exemption granted by FRS No. 8 'Related party disclosures', the Company, as a member of the Arjo Wiggins Appleton group, is not required to, and does not, disclose transactions with fellow members, associated undertakings and joint ventures of that group.

**24. Immediate and ultimate parent companies**

The immediate parent company is Arjo Wiggins Fine Papers Holdings Limited and the ultimate parent company and controlling party is Arjo Wiggins Appleton p.l.c., a company registered in the United Kingdom. A copy of the consolidated financial statements of Arjo Wiggins Appleton p.l.c. can be obtained from the Secretary, at the following address:

Gateway House  
Basing View  
Basingstoke  
Hampshire  
RG21 4EE