

SCA Products (UK) Limited
Annual report and financial statements
for the year ended 31 December 2021

Company Registered number 01549728

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SCA Products (UK) Limited

Directors and advisers

Directors

S B King

M Henningsson

M Frolander

Company secretary

M J Day

Independent auditors

Ernst & Young LLP

400 Capability Green, Luton, LU1 3LU

Bankers

Handelsbanken

3 Thomas More Square

London

E1W 1WY

National Westminster Bank plc

City of London Office

P O Box 12258

1 Princes Street

London

EC2R 8BP

Registered office

Saxon House

27 Duke Street

Chelmsford

Essex

CM1 1HT

Registered number

01549728

SCA Products (UK) Limited

Directors' report for the year ended 31 December 2021

The directors present their annual report and the audited financial statements for the year ended 31 December 2021.

Change of name

The company changed its name from SCA Graphic Paper UK Limited to SCA Products (UK) Limited on 9 April 2021.

Principal activities

During the year ended 31 December 2021, the principal activity of the company was that of the supply of wholesale wood in the UK market.

Review of business and future developments

The financial year ended December 2021 was significantly better than expected considering the business was still operating with the consequences of the COVID pandemic. The formal impact of COVID-19 has been included under the "Going Concern - effects of COVID -19" in the Directors' Report.

2021 represented the first full year of trading primarily as a supplier of wholesale wood products from SCA and others to the UK market. As a company we are in a strong position with our financial strength and products which will help us grow revenue and maintain good profitability in future years.

The directors consider revenue and operating profit as the main key performance indicators (KPIs). The company's revenue in the year was £15,047,996 (2020: £1,467,962) and operating profit was £1,838,214 (2020: £24,692). The change in revenue is related to the change in the company's core business.

Financial risk management

The company's operations expose it to a variety of financial risks that include credit risk, liquidity risk, and foreign currency risk.

Given the size of the company, the directors have not delegated the responsibility for monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the company's finance department.

SCA Products (UK) Limited

Directors' report for the year ended 31 December 2021

(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 company's finance department.

Liquidity risk

The company maintains appropriate finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Foreign currency risk

The company has transactions with other group companies, which are in Euros but the transaction amounts are minimal.

Suppliers

The company agreed 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.

Results and dividends

The company's profit after tax for the financial year is £1,369,000 (2020: £12,000).

The directors have not declared or paid an interim or final dividend for the year ended 31 December 2021 (2020: Nil).

Going concern – effects of COVID-19

Since the balance sheet date, the Covid-19 pandemic has slowly declined in efficacy and we have seen the ending of all restriction in the UK in early 2022. The period continued to highlight the importance of both global and local UK supply chains, in which the company plays an important part.

The demand for wood, having increased during the first 3 quarters of 2021 before stabilizing during Q4 2021 was lacklustre during Q1 2022 as the market sought to reduce its stockholding of wood. The subsequent invasion of Ukraine by Russia in February 2022 has led to widespread sanctions on both Russian and Belorussian products and services, including wood products. The UK instigated sanctions against those countries in early March 2022 with immediate effect, the EU also imposing sanctions, but with an approximate 3 month window to come into force. The effect of this alone led to increased activity in Q2 2022 and price increases, on the basis that approximately 6% of the UK's imported wood volume would disappear. However, this was a temporary improvement, and wider macro-economic factors including serious concerns about energy costs started to impact the business going into Q3 2022 with a decline in both activity and price. The outlook into Q4 2022 remains uncertain, with the directors expecting a more subdued market going into 2023 at this stage. The reduction in activity seen in the last 3 months is expected to reduce the company's profitability for 2022. However, there continues to remain good opportunity for SCA to grow their business in the UK over the medium term.

SCA Products (UK) Limited

Directors' report for the year ended 31 December 2021

(continued)

During the entire period, SCA's supply chain remained strong and we continue to work closely with our sawmills in SCA Sweden to ensure good supplies of wood products. We have also maintained a close working relationship with our terminal operator in Hull, Global Shipping Ltd; and our main haulage providers to ensure continued flow of said products.

As the effect of Covid-19 dissipated during 2022, the company decided to return to hybrid working, taking on two office spaces on rental terms. They are based in Chelmsford, Essex and Maltby, South Yorkshire. The company, also having vacated its previous head office, has now changed the registered address to that based in Chelmsford.

The Directors have prepared forecasts based on the various scenarios for a period of 12 months from the date of approving the 2021 financial statements.

The forecasts reflect the ongoing business model for SCA Products (UK) Ltd.

The company has received a letter of support from its ultimate parent company, Svenska Cellulosa Aktiebolaget SCA (publ), confirming their support to the company to meet its liabilities as they fall due for a period of 12 months from the date of approving the 2021 UK financial statements.

Having considered their forecasts, the parental support and the ability of the parent to support the company after making enquiries and considering the impact of Covid-19, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for a period of 12 months from the date of signing of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

SCA Products (UK) Limited

Directors' report for the year ended 31 December 2021

(continued)

Directors

The directors who held office during the year and up to the date of signing the financial statements, unless otherwise stated, are as follows:

J O Knuts	(resigned 30 March 2021)
P B McCarthy	(resigned 31 March 2021)
L Löfgren	(resigned 30 March 2021))
S B King	(appointed 30 March 2021)
M Henningsson	(appointed 30 March 2021)
M Frolander	(appointed 30 March 2021)

Disclosure of information to auditors

Each of the persons who are directors at the date of approval of this report confirms that:

- so far as the directors are 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 in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Special exemption

The company was entitled to take advantage of the exemption from the requirement to prepare a strategic report in accordance with Sections 414B and 415A of the Companies Act 2006.

On Behalf of the Board


S B King
Director

Date: 26th Dec 2022

SCA Products (UK) Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable United Kingdom 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 company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- state whether applicable UK Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

SCA Products (UK) Limited

Independent auditor's report to the members of SCA Products (UK) Limited

Opinion

We have audited the financial statements of SCA Products (UK) Limited for the year ended 31 December 2021 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 21, 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 2021 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

SCA Products (UK) Limited

Independent auditor's report to the members of SCA Products (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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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.

SCA Products (UK) Limited

Independent auditor's report to the members of SCA Products (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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, the Financial Reporting Standard 101, the United Kingdom direct and indirect tax regulations. In addition, the company must comply with operational and employment laws and regulations including health and safety regulations and GDPR.
- We understood how the company is complying with those frameworks by making enquiries of management and senior finance personnel and gaining an understanding of the entity level controls of the company in respect of these areas and the controls in place to reduce opportunity for fraudulent transactions.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management and finance personnel. We considered the procedures and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and gained an understanding as to how those procedures and controls are implemented and monitored. We audited the risk of management override of controls, including through testing certain non-standard manual journal entries and other adjustments for appropriateness. We also audited the risk of improper revenue recognition through performing audit procedures on revenue cut off.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included obtaining and reading management meeting minutes and relevant approval documents, enquiries of senior finance personnel and management and agreement of samples of transactions throughout the audit to supporting source documentation. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with all applicable reporting requirements.

SCA Products (UK) Limited

Independent auditor's report to the members of SCA Products (UK) Limited (continued)

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

Farzin Radfar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

Date: *28 October 2022*

SCA Products (UK) Limited

Statement of comprehensive income for the year ended 31 December 2021

	Note	Continuing Operations 2021	Discontinued Operations 2021	Total 2021	2020
		£000	£000	£000	£000
Turnover	3	14,803	245	15,048	1,468
Cost of sales		(11,992)	-	(11,992)	(594)
Gross profit		2,811	245	3,056	874
Distribution costs		(2,178)	-	(2,178)	(14)
Administrative expenses		(1,384)	(238)	(1,622)	(836)
Other income		2,582	-	2,582	-
Operating profit	4	1,831	7	1,838	24
Finance income	7	183	-	183	-
Finance costs	7	(326)	-	(326)	(1)
Finance costs – net	7	(143)	-	(143)	(1)
Profit on ordinary activities before taxation		1,688	7	1,695	23
Tax on profit on ordinary activities	8			(326)	(11)
Profit on ordinary activities for the financial year				1,369	12
Other comprehensive (expenses)/income				-	-
Total comprehensive income for the year				1,369	12

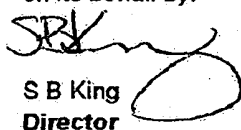
There is no difference between the loss on ordinary activities before taxation and the losses for the financial years stated above and their historical cost equivalents.

SCA Products (UK) Limited

Statement of financial position as at 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Tangible fixed assets	10	8	23
Right-of-use assets	11	1,611	1,796
Total fixed assets		1,619	1,819
Current assets			
Inventories	13	4,248	1,581
Trade and other receivables	14	3,681	3,693
Net investment in finance leases	12	2,155	2,597
Cash and cash equivalents		1,423	3,940
		11,507	11,811
Creditors: amounts falling due within one year	15	(8,356)	(9,156)
Net current assets		3,151	2,655
Total assets less current liabilities		4,770	4,474
Creditors: amounts falling due after more than one year	16	(2,987)	(3,638)
Provisions for liabilities	17	-	(422)
Net assets		1,783	414
Capital and reserves			
Called up share capital	19	200	200
Other reserves	19	500	500
Retained earnings		1,083	(286)
Total equity		1,783	414

The financial statements were approved by the Board of Directors on 26/10/22 and were signed on its behalf by:


S B King
Director

Company Registered number 01549728

SCA Products (UK) Limited

Statement of changes in equity for the year ended 31 December 2021

	Called up share capital	Other reserves	Retained earnings	Total equity
Note	£000	£000	£000	£000
As at 1 January 2020	200	500	(298)	402
Profit for the year	-	-	12	12
As at 31 December 2020	200	500	(286)	414
As at 1 January 2021	200	500	(286)	414
Profit for the year	-	-	1,369	1,369
As at 31 December 2021	200	500	1,083	1,783

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021

General information

SCA Products (UK) Limited is a limited company incorporated in the United Kingdom. The address of its registered office and principal place of business is Saxon House, 27 Duke Street, Chelmsford, Essex, CM1 1HT.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS101") and the Companies Act 2006.

The financial statements are prepared in Sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The accounting policies set out below have been consistently applied to all the years presented unless otherwise stated. They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

Going concern – effects of COVID-19

Since the balance sheet date, the Covid-19 pandemic has slowly declined in efficacy and we have seen the ending of all restriction in the UK in early 2022. The period continued to highlight the importance of both global and local UK supply chains, in which the company plays an important part.

The demand for wood, having increased during the first 3 quarters of 2021 before stabilizing during Q4 2021 was lacklustre during Q1 2022 as the market sought to reduce its stockholding of wood. The subsequent invasion of Ukraine by Russia in February 2022 has led to widespread sanctions on both Russian and Belorussian products and services, including wood products. The UK instigated sanctions against those countries in early March 2022 with immediate effect, the EU also imposing sanctions, but with an approximate 3 month window to come into force. The effect of this alone led to increased activity in Q2 2022 and price increases, on the basis that approximately 6% of the UK's imported wood volume would disappear. However, this was a temporary improvement, and wider macro-economic factors including serious concerns about energy costs started to impact the business going into Q3 2022 with a decline in both activity and price. The outlook into Q4 2022 remains uncertain, with the directors expecting a more subdued market going into 2023 at this stage. The reduction in activity seen in the last 3 months is expected to reduce the company's profitability for 2022. However, there continues to remain good opportunity for SCA to grow their business in the UK over the medium term.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

Going concern – effects of COVID-19 (Continued)

During the entire period, SCA's supply chain remained strong and we continue to work closely with our sawmills in SCA Sweden to ensure good supplies of wood products. We have also maintained a close working relationship with our terminal operator in Hull, Global Shipping Ltd; and our main haulage providers to ensure continued flow of said products.

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The forecasts reflect the ongoing business model for SCA Products (UK) Ltd.

The company has received a letter of support from its ultimate parent company, Svenska Cellulosa Aktiebolaget SCA (publ), confirming their support to the company to meet its liabilities as they fall due for a period of 12 months from the date of approving the 2021 UK financial statements.

Having considered their forecasts, the parental support and the ability of the parent to support the company after making enquiries and considering the impact of Covid-19, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for a period of 12 months from the date of signing of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

New accounting standards, amendments and interpretations.

There are no amendments to accounting standards that are effective for the year ended 31 December 2021 that have had a material impact on the company's financial statements.

Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the company expects to be entitled in exchange for promised goods or services to customers net of discounts and VAT. Revenue is recognised when control has passed to the customer by the customer being able to use or benefit from the good or service. Control may be passed at a given point in time, usually the case for sale of goods. In other cases, a performance obligation may be satisfied over time, usually the case for sale of services.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling on the date that the transactions were entered into. Differences that arise from the date of settlement are taken to the statement of comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are taken to the statement of comprehensive income.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of fixed assets represents their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	25%
Fixtures and fittings	20-25%

Impairment of fixed assets

For fixed assets with finite useful lives a review is carried out at each reporting date to determine whether there has been an indication during the year that an impairment loss may exist. Where an indication of impairment exists, impairment testing is carried out.

For the purposes of impairment testing, the carrying amounts of the tangible assets are reviewed and an impairment loss is recognised where the carrying amount exceeds the asset's recoverable amount.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

Impairment of fixed assets (continued)

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Value in use is determined by discounting an asset's estimated future cash flows to its present value using a discount rate which reflects current market assessments of the time value of money and asset specific risks.

Any impairment loss arising is recognised immediately in profit or loss. Where the asset is carried at a re-valued amount, the impairment loss is recognised as a decrease to the revaluation reserve, subject to the re-valuation surplus that has been recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and includes expenditure incurred in acquiring the inventory and other costs in bringing it to its existing location and condition, including transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. As of the balance sheet date, inventories are carried at cost net of obsolescence provision.

In determining the net realisable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. The company's core business is subject to market changes which may cause inventory obsolescence. Moreover, future realisation of the carrying amounts of inventories presented in the balance sheet is affected by price changes in different segments of wood products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the company's inventories within the next reporting period.

Financial assets

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories, depending on the nature and purpose of the financial assets.

The company's financial assets, which include trade receivables, amounts due from group undertakings and cash and bank balances, are initially measured at transaction price including transaction costs unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Impairment of financial assets (including trade and other receivables)

Financial assets are assessed for indicators of impairment at each reporting end date.

Trade receivables belong in the category of financial assets measured at amortised cost, since the purpose is to obtain contractual cash flows. The company has chosen to apply a simplified impairment model of financial assets based on expected losses. For the simplified model developed for trade receivables, anticipated losses are recognised for the estimated remaining lifetime of the receivable.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

Derecognition of financial assets

Financial assets are de-recognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Financial liabilities

The company recognises financial debt when it becomes a party to the contractual provisions of the instruments.

Classification of financial liabilities

The company's financial liabilities, including trade and other payables and amounts due to group undertakings that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest unless repayable within one year.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

Taxation

Current tax

The tax currently payable or recoverable is based on taxable profit or loss in the year. Taxable profit or loss differs from net profit or loss as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never repayable or deductible. UK Corporation Tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the financial reporting date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the financial reporting date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the financial reporting date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

Deferred taxation (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the financial reporting date. Deferred tax is measured on an undiscounted basis.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense. The cost of any unused holiday entitlement is recognised in the period in which the employee's salaries are received. Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Leases

The company leases various warehouses, office premises and equipment. At inception the company assesses whether a contract is, or contains, a lease within the scope of IFRS16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the company recognises a right-of-use asset and a lease liability at the lease commencement date.

A contract can include components that are not to be classified as lease components, such as services and administration. SCA has chosen to exclude non-lease components for all leases.

All leases are recognised in accordance with IFRS 16 Leases, which means that a lessee must recognise a right-of-use asset and a lease liability in the balance sheet at the date at which the leased asset is available for use by the company. The standard includes exemptions for short-term leases (leases with a lease term of 12 months or less) and leases where the underlying asset has a low value. SCA uses the available exemption, which means that payments for such leases are recognised in the income statement on a straight-line basis over the lease term. Leases covered by the exemption comprise of photocopiers and other small items of office equipment.

On the date of initial application for the lease, the lease liability is measured at the present value of outstanding lease payments. This encompasses fixed fees after deductions for any benefits, variable lease payments linked to index or price and amounts expected to be paid by the lessee in accordance with residual value guarantees. Lease payments include the exercise price for a purchase option if the lessee is reasonably certain of exercising the option and financial penalties to be paid on termination of the lease if the lease term reflects that the lessee will utilise this option. Variable lease payments not linked to price or interest are expensed.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies for the year ended 31 December 2021 (continued)

Leases (continued)

Lease payments are to be discounted using the interest rate implicit in the contract. If that rate cannot be readily determined, lease payments are discounted using SCA's incremental borrowing rate, being the rate that a lessee would have to pay for financing through loans for the equivalent period with similar collateral, for the right-of-use of an asset in a similar economic environment. The SCA group has prepared a method for determining the incremental borrowing rate, which includes the credit rating of individual subsidiaries, the economic environment, contract duration of the lease and class of asset.

Updating the incremental borrowing rate is performed on a regular basis of new and modified contracts. After the date of the initial application, the lease liability increases by the interest on the lease liability but decreases as the lease payments are made.

The lease liability is remeasured using a modified discount rate in cases where the lease term changes or if the assessment of an option to purchase the underlying asset changes. The lease liability is remeasured using an unchanged discount rate if the amount expected to be paid in accordance with the residual value guarantees is changed, or future lease payments are changed due to changes in price or index.

On the date of initial application for the lease, the date on which the underlying asset becomes available for use, a right-of-use asset is recognised. Right-of-use assets are measured at cost which includes the sum of the original lease liability, any initial direct fees and an estimate of any recovery expenses. Furthermore, cost includes all lease payments made on or before the date of initial application, after deductions for any benefits received in conjunction with signing the lease. After the date of initial application, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment, taking into account adjustments for any revaluation of the lease liability.

Right-of-use assets are depreciated over their useful life, if there is reasonable certainty that a purchase option will be exercised. Otherwise, the lessee must depreciate the right-of-use asset from the date of initial application until whichever occurs first of the end of the useful life or the end of the lease term. If, at accounting year end, there is any indication that right-of-use assets have declined in value, impairment testing is carried out.

Information about critical accounting estimates and assumptions in the application of lease accounting is disclosed in note 2.

Lessor

When SCA is lessor, each contract is classified as either an operating or finance lease. Lease payments are recognised as income on a straight-line basis over the contract term.

At the end of 2020 the company signed an agreement concerning the subletting of a property. The right-of-use under the sublet is classified as a finance lease. The classification is primarily based on the transfer of risks and rewards relating to the premises to the ultimate lessee, and the length of sub-lease period being equal to the length of right-of-use duration.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

2 Critical accounting estimates and assumptions

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:

Lease accounting

The lease payments are discounted using the interest rate implicit in the contract. If that rate cannot be readily determined, lease payments are discounted using SCA's incremental borrowing rate, being the rate that a lessee would have to pay for financing through loans for the equivalent period with similar collateral, for the right-of-use of an asset in a similar economic environment. The SCA Group has prepared a method for determining the incremental borrowing rate, which includes the credit rating of individual subsidiaries, the economic environment, contract duration of the lease and class of asset. Updating the incremental borrowing rate is performed on a regular basis of new and modified contracts.

3 Turnover

Turnover results from the principal activities of the company in the United Kingdom.

Analysis of revenue by category:

	2021 £000	2020 £000
Continuing operations		
Sale of goods	14,134	647
Sale of services	669	53
	14,803	700
Discontinued operation		
Sale of services	245	768
Total	15,048	1,468

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

4 Operating profit

Operating profit is stated after (crediting)/charging:

	2021	2020
	£000	£000
Included within other income		
Rental income	(420)	-
Recharge of group expenses	(2,162)	-
Depreciation of plant and equipment – owned	6	8
Loss on disposal of plant and equipment	9	-
Depreciation of right-of-use assets	409	26
Inventory recognised as an expense	11,724	594
Impairment of inventory (included in cost of sales)	268	-
Audit fees payable to company's auditor	58	44

5 Directors' emoluments

The directors' emoluments were as follows:

	2021	2020
	£000	£000
Aggregate emoluments	158	335
Company pension contributions to defined contribution schemes	34	22
	192	357

Emoluments paid by the company were in respect of two directors (2020: one director). Included within the figure for 2020 is an amount of £168,659 relating to a severance payment. Remuneration of the highest paid director for 2021 was £134,901. The other directors, who served during the year, are remunerated for their services by other group companies and it is not possible to accurately apportion the time spent in services to the company. Retirement benefits are accruing to two directors (2020: one) under a defined contribution scheme.

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

6 Employee information

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

	2021	2020
By activity:	Number	Number
Selling and distribution	9	7
Administration	1	1
	10	8

Employment costs in respect of the above employees:

	2021	2020
	£000	£000
Wages and salaries	650	638
Social security costs	77	81
Other pension costs	112	112
Severance costs	-	422
	839	1,253

7 Finance costs

	2021	2020
	£000	£000
Finance income		
Interest receivable on net interest in finance lease	183	-
Total finance income	183	-
Finance expense		
Lease liabilities	(326)	(1)
Interest expense	(326)	(1)
Net finance cost	(143)	(1)

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

8 Tax on profit on ordinary activities

(a) Tax charge included in statement of comprehensive income

	2021 £000	2020 £000
Current tax:		
Current corporation tax charge	325	14
Adjustments in respect of prior years	-	-
Total current tax	325	14
Deferred taxation:		
Origination and reversal of temporary differences (note 18)	1	(3)
Total deferred tax	1	(3)
Tax on profit on ordinary activities	326	11

(b) Reconciliation of tax credit expense in the income statement

The tax charge for the year is higher than the standard rate of corporation tax in the UK as follows:

	2021 £000	2020 £000
Profit on ordinary activities before taxation	1,695	23
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	322	4
Effects of:		
Expenses not deductible for tax purposes	5	7
Adjustment in respect of prior years	-	-
Tax rate change in respect of deferred tax balances	(1)	-
Total tax charge in the income statement	326	11

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

8 Tax on profit on ordinary activities (continued)

(c) Factors affecting future tax charges

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the main rate of corporation tax would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9 Dividends

No dividend was paid during the year ended 31 December 2021 (2020: £NIL).

10 Tangible fixed assets

	Office equipment	Fixtures and fittings	Total
	£000	£000	£000
Cost			
At 1 January 2021	61	26	87
Disposals	(23)	(25)	(48)
At 31 December 2021	38	1	39
Accumulated depreciation			
At 1 January 2021	46	18	64
Charge for the financial year	5	1	6
On disposals	(21)	(18)	(39)
At 31 December 2021	30	1	31
Net book amount at 31 December 2021	8	-	8
Net book amount at 31 December 2020	15	8	23

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

11 Leases

The company has lease contracts for its office premises used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

Right-of-use assets

	Buildings
	£000
Cost	
At 1 January 2021	1,848
Additions	237
Disposal	(71)
At 31 December 2021	2,014
Accumulated depreciation	
At 1 January 2021	52
Charge for the financial year	409
On disposal	(58)
At 31 December 2021	403
Net book amount at 31 December 2021	1,611
Net book amount at 31 December 2020	1,796

Lease liabilities

	2021	2020
	£000	£000
Current	849	749
Non-current	2,987	3,638
	3,836	4,387

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

11 Leases (continued)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	Note	2021 £000	2020 £000
Depreciation charge of right-of-use assets			
Buildings		(409)	(26)
		<u>(409)</u>	<u>(26)</u>
Interest expense (included in finance cost)	7	(326)	(1)
Expenses relating to leases of low-value assets (included in administrative expenses)		-	(1)

12 Net investment in finance leases

As at the 31 December 2020, the business entered into a back to back sub-lease for the premises of £2,597,041. This lease is expected to continue until 31 December 2025 and is offset against the right of use liability recognised in note 11.

	2021 £000	2020 £000
Current portion of finance lease	478	519
Non-current portion of finance lease	<u>1,677</u>	<u>2,078</u>
	<u>2,155</u>	<u>2,597</u>

13 Inventories

	2021 £000	2020 £000
Finished goods and good for resale	<u>4,248</u>	<u>1,581</u>

Inventories are stated after provisions for impairment of £304,395 (2020: £36,332).

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

14 Trade and other receivables

	2021	2020
	£000	£000
Amounts falling due within one year:		
Trade receivables	2,018	1,921
Amounts owed by fellow group undertakings	952	1,721
Other receivables	680	-
Deferred taxation	4	5
Prepayments and accrued income	27	46
	3,681	3,693

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

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

15 Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Trade creditors	847	645
Amounts owed to parent company	274	274
Amounts owed to fellow group undertakings	5,092	6,737
Financial liabilities – leases (note 11)	849	749
Corporation tax	318	12
Other taxation and social security	510	311
Other creditors	244	239
Accruals and deferred income	222	189
	8,356	9,156

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16 Creditors: amounts falling due after more than one year

	2021	2020
	£000	£000
Financial liabilities - leases (note 11)	2,987	3,638
	2,987	3,638

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

17 Provision for liabilities

	Severance Costs £000	Total £000
At 31 December 2020	422	422
Amount utilised in the year	(422)	(422)
At 31 December 2021	-	-

This amount was recovered from SCA Massa AB (formerly SCA Graphic Sundsvall AB).

18 Deferred tax

The amount provided for deferred taxation and the movements during the year were as follows:-

Accelerated capital allowances

	2021 £000	2020 £000
At 1 January	2	2
Deferred tax charge in profit and loss account (note 8)	2	-
At 31 December	4	2

Other timing differences

	2021 £000	2020 £000
At 1 January	3	-
Deferred tax (debit)/credit in profit and loss account (note 8 (a))	(3)	3
At 31 December	-	3
Total at 31 December	4	5

The deferred tax asset has been shown in debtors due within one year (note 14).

SCA Products (UK) Limited

Notes to the financial statements for the year ended 31 December 2021

19 Called up share capital and other reserves

Share capital	2021	2020
	£000	£000
Authorised		
200,000 (2020: 200,000) ordinary shares of £1 each	200	200
Allotted, called-up and fully paid		
200,000 (2020: 200,000) ordinary shares of £1 each	200	200

Other reserves

This represents an unconditional shareholders' contribution received during the year ended 31 December 2017 from SCA Forest Products AB.

20 Post-employment benefits

Defined contribution schemes

The company's defined contribution schemes are funded by the payment of contributions to independently administered funds and the assets of the schemes are held separately from those of the company. The pension cost charge for the year amounted to £112,400 (2020: £111,988). Contributions totalling £nil (2020: £15,519) were payable to the funds at the year end.

21 Ultimate parent company and controlling party

The company is a wholly owned subsidiary of SCA Forest Products AB, a company registered in Sweden.

Svenska Cellulosa Aktiebolaget SCA (Publ), a company incorporated in Sweden, is the ultimate parent company of the largest and smallest group to prepare consolidated financial statements and is also considered as the controlling party. Copies of the financial statements may be obtained from the Secretary, Box 7827, SE-103 97 Stockholm, Sweden.