Smurfit Investments UK Limited

Report and Accounts

Year ended 31 December 2002

Registered No: 2014441

Directors
M J Clayton
G A Fagan
M O'Riordan
B Fox
T Bailey
A J Woollard

Secretary
M J Clayton

Auditors
Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Registered Office
Darlington Road
West Auckland
County Durham
DL14 9PE

Directors' Report

The directors present their report and accounts for the year ended 31 December 2002.

Principal activities and review of business developments

The company is an investment company with subsidiaries involved in the manufacture of paper and board, printing and conversion of packaging products and in newspaper and magazine publishing. Further details are given in note 7 to the accounts.

Results and dividends

The loss for the year, after taxation, amounts to £167.9 million (2001 – profit of £49.7 million).

During 2001, the company received repayment of amounts due from a subsidiary undertaking amounting to £71 million. The company utilised these funds to make early repayment of certain long term liabilities owed to other group companies in the amount of £41 million and made a capital contribution of £30 million to an indirectly held subsidiary, Smurfit UK Limited, in order to improve its financial position. The latter entry resulted in a profit and loss account charge of £30 million. Additionally, following the liquidation of various dormant companies within the UK Group, a write back of inter-company balances in the amount of £78.4 million has been recorded as a credit to the profit and loss amount.

In October 2002, the company received an interest free loan from a parent undertaking in the amount of £142.6 million. After repaying external borrowings in the amount of approximately £34 million, and utilising existing available cash resources, the company made capital contributions with a total value of £164.4 million to various of its direct and indirect subsidiary undertakings in order to strengthen their financial position. Of this £164.4 million, £50.1 million was used by the recipients to repay existing loans from Smurfit Investments UK Limited, and £6.3 million was loaned back to Smurfit Investments UK Limited. These capital contributions gave rise to a consequential decrease in the company's net assets.

Also in October 2002, the company's ultimate parent undertaking, Jefferson Smurfit plc, was acquired by Madison Dearborn Partners.

The directors do not recommend the payment of a dividend.

Directors' Report

Directors and their interests

The following directors served during the year, and have been appointed since the year end.

M J Clayton	
G A Fagan	
M O'Riordan	
T Bailey	
R A Villaquiran	(resigned 17 October 2002)
M C Thomas	(resigned 17 October 2002)
D F Smurfit	(resigned 17 October 2002)
A J Woollard	(appointed 1 October 2002)
J E Price	(resigned 5 April 2003)

B Fox was appointed a director on 2 June 2003.

None of the directors had a direct beneficial interest in the shares of the company or of any other group company incorporated in England and Wales either at the beginning or at the end of the year.

The company has maintained indemnity insurance during the year for directors and officers.

Staff

Efforts are made to inform staff regularly of the company's progress and development and to ensure they have an appreciation of the company's financial position.

It is the company's policy to give full consideration to suitable applications for employment from disabled persons. Opportunities also exist for employees of the company who become disabled to continue their employment or to be trained for other positions in the company's employment.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

M J Clayton
Secretary

17 December 2003

Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

ERNST & YOUNG

Independent auditors' report

to the members of Smurfit Investments UK Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 14. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

ERNST & YOUNG

Independent auditors' report

to the members of Smurfit Investments UK Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Manchester

17 December 2003

Profit and Loss Account

for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Administrative (expenses)/income		(168,319)	48,383
Operating (loss)/profit		(168,319)	48,383
Interest receivable and similar income	3	4,500	9,810
Interest payable and similar charges	3	(4,076)	(8,498)
(Loss)/profit on ordinary activities before taxation		(167,895)	49,695
Taxation	6	-	-
(Loss)/profit after taxation and retained for the year	12	(167,895)	49,695

Statement Of Total Recognised Gains And Losses

for the year ended 31 December 2002

There are no recognised gains and losses other than the loss attributable to the shareholders of the company of £167,895,000 in the year ended 31 December 2002 and the profit of £49,695,000 in the year ended 31 December 2001.

Balance Sheet
at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Investments	7	98,135	98,135
Current assets			
Debtors	8	234,061	196,264
Creditors: amounts falling due within one year	9	(5,199)	(5,283)
Net current assets		228,862	190,981
Total assets less current liabilities		326,997	289,116
Creditors: amounts falling due after more than one year	10	(310,971)	(105,195)
Net assets		16,026	183,921
Capital and reserves			
Called up share capital	11,12	29,067	29,067
Share premium account	12	6,520	6,520
Capital redemption reserve	12	64,858	64,858
Profit and loss account	12	(84,419)	83,476
Total shareholders' funds	12	16,026	183,921
Equity		(4,116)	163,779
Non-equity		20,142	20,142
		16,026	183,921

These accounts were approved by the Board on 17 December 2003 and signed on its behalf by:

M J Clayton, Director

ERNST & YOUNG

Notes to the Accounts

at 31 December 2002

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

The company is a wholly owned subsidiary of the Jefferson Smurfit Group Limited and therefore, under the provisions of Section 228 of the Companies Act 1985, Group accounts have not been prepared. The accounts therefore present information about the company as an individual undertaking and not about its group.

Cash flow statement

The company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of Jefferson Smurfit Group Limited, which is incorporated in Ireland, and prepares a consolidated cash flow statement.

Deferred taxation

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

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and

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

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

Foreign currencies

Foreign currency transactions during the year have been translated at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the relevant year end exchange rates. The resulting profits or losses are dealt with in the profit and loss account.

Notes to the Accounts

at 31 December 2002

1. Accounting policies (continued)

Pension costs

The company participates in a defined benefit pension scheme which requires contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the company. The regular cost is attributed to individual years using the projected unit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Related party transactions

As a wholly owned subsidiary of Jefferson Smurfit Group Limited, the company has taken advantage of the exemptions available under FRS 8 not to disclose related party transactions within the group.

Investments

Investments in subsidiary undertakings are stated at cost less any provisions for impairment.

2. Operating (loss)/profit

This is stated after charging/(crediting):

	2002	*2001*
	£000	*£000*
Write back of amounts due to subsidiary undertakings	-	(78,442)
Contribution to subsidiary undertaking	164,407	30,000

During 2001, the company received repayment of amounts due from a subsidiary undertaking amounting to £71 million. It utilised these funds to make early repayment of certain long term liabilities owed to other group companies in the amount of £41 million and made a contribution of £30 million to another group company, Smurfit UK Limited, in order to improve its financial position. The latter entry resulted in a profit and loss account charge of £30 million. Additionally, in connection with the striking-off of various dormant companies within the UK Group, a write back of inter-company balances in the amount of £78.4 million has been recorded as a credit to the profit and loss amount.

In October 2002, the company received an interest free loan from a parent undertaking in the amount of £142.6 million. After repaying external borrowings in the amount of approximately £34 million, using its available cash resources, the company made capital contributions with a total value of £164.4 million to various of its direct and indirect subsidiary undertakings in order to strengthen their financial position. Of this £164.4 million. £50.1 million was used by the recipients to repay existing loans from Smurfit Investments UK Limited, and £6.3 million was loaned back to Smurfit Investments UK Limited.

These capital contributions gave rise to a consequential decrease in the company's net assets.

Notes to the Accounts
at 31 December 2002

3. Interest
Interest receivable and similar income:

	2002 £000	2001 £000
Bank interest receivable	-	1
Interest receivable from group undertakings	4,500	9,809
	4,500	9,810

Interest payable and similar charges:

	2002 £000	2001 £000
Bank loans and overdrafts	2,419	3,214
Interest payable to group undertakings	1,657	5,284
	4,076	8,498

4. Employee numbers
The average number of persons employed during the year including directors is as follows:

	2002 No.	2001 No.
Administration	-	-

5. Directors' emoluments

	2002 £000	2001 £000
Management remuneration	-	-

Notes to the Accounts

at 31 December 2002

6. Taxation

(a) Tax on (loss)/profit on ordinary activities

There is no current tax or deferred tax charge for the year (2001 – nil).

(b) Factors affecting current tax charge

The tax credit on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30%. In 2001 the tax charge on the profit on ordinary activities for the year was lower than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2002	*2001*
	£000	*£000*
(Loss)/profit on ordinary activities before tax	(167,895)	49,695
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 – 30%)	(50,369)	14,909
Capital contributions to subsidiaries	49,321	9,000
Non-taxable credits arising from release of inter-company indebtedness	-	(23,533)
Group relief for nil consideration	1,027	(383)
Other short term timing differences	21	7
	-	-

(c) Factors that may affect future tax charges

The company has unutilised capital losses available for carry forward against potential future capital gains.

The company has other timing differences of £570,000 (2001 - £574,000). There is insufficient certainty as to when they may give rise to tax relief to recognise them as a potential deferred tax asset.

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Notes to the Accounts

at 31 December 2002

7. Investments

	2002	*2001*
	£000	*£000*
Shares in subsidiaries at cost:		
- TOPS Series XVIII Limited	41,116	41,116
- Smurfit Corrugated Holdings	36,006	36,006
- Norcor plc	18,009	18,009
- Badger Publishing Limited	2,991	2,991
- Smurfit Communications UK Limited	13	13
	98,135	98,135

The directors are of the opinion that the value of the company's investments in its subsidiary undertakings is not less than the amount stated in the balance sheet.

Principal subsidiary undertakings

The principal subsidiaries of the company, all of which are wholly owned and incorporated in England and Wales unless otherwise stated, at 31 December 2002 were as follows:

Company	*Nature of business*
Badger Publishing Limited	Educational book publisher
Brenchley Limited* (incorporated in the Republic of Ireland)	Non-trading
Cundell Group Holdings Limited**	Investment company
Finlay Packaging plc* (incorporated in Northern Ireland)	Non-trading
Hale Paper Company Limited*	Dormant
Netadvance plc*	Holding company
Norcor plc	*Corrugated board manufacturer
Fishergate Properties Limited*	Dormant
Norwich Corrugated Board Limited*	Dormant
Smurfit Aviation Limited*	Non-trading
Smurfit Communications UK Limited	Holding company
Smurfit Corrugated Cases (Lurgan) Limited (incorporated in Northern Ireland)*	Dormant
Smurfit Corrugated Holdings	Investment holding company
Smurfit Corrugated UK Limited*	Dormant
Smurfit Tubes (Leek) Limited*	Dormant
Smurfit Tubes Limited*	Dormant
Smurfit UK Limited*	Paperboard and packaging manufacturer
TOPS Series XVIII Containers Holdings Limited*	Non-trading
TOPS Series XVIII Limited (incorporated in the Cayman Islands)	Dormant
Townsend Hook Group Limited*	Dormant
Townsend Hook Limited*	Dormant

* held by subsidiaries

Notes to the Accounts

at 31 December 2002

7. Investments (continued)

** Sminho Limited, a fellow subsidiary undertaking of Jefferson Smurfit Group plc, owns the entire issued redeemable preference share capital of Cundell Group Holdings Limited with a nominal value of £17,250,000. At 31 December 2002 Cundell Group Holdings Limited had an excess of assets over liabilities of £39,000 (2001 – excess of liabilities over assets of £4,713,000).

8. Debtors

Amounts falling due within one year:

	2002	*2001*
	£000	*£000*
Amounts owed by subsidiary undertakings	234,049	196,069
Other debtors	12	195
	234,061	196,264

Included in amounts that are due from subsidiary undertakings are fixed loans on which interest is charged at a margin over base rate.

9. Creditors: amounts falling due within one year

	2002	*2001*
	£000	*£000*
Overdraft	-	8
Loan notes	-	800
Amounts due to subsidiary undertakings	3,948	3,658
Accrued expenses	635	817
Other creditors	616	-
	5,199	5,283

The loan notes were issued in connection with the acquisition of Badger Publishing Limited and non-interest bearing. They are redeemable by 31 December 2002 at the option of the holder.

10. Creditors: amounts falling due after more than one year

	2002	*2001*
	£000	*£000*
Long term loans	-	30,000
Amounts due to parent undertakings	183,976	-
Amounts due to subsidiary and fellow subsidiary undertakings	126,464	74,345
Deferred consideration	531	850
	310,971	105,195

The deferred consideration arose on the acquisition of Badger Publishing Limited and is payable over a period up to March 2003 depending on the performance of the business.

The loan had an interest rate of 9.71% and was guaranteed by the company, its ultimate parent and their subsidiaries. Following the receipt of an interest free loan from a parent undertaking it has been repaid.

Notes to the Accounts

at 31 December 2002

10. Creditors: amounts falling due after more than one year (continued)

The maturity of the loans in the company balance sheet can be analysed as follows:

	2002	*2001*
	£000	*£000*
Repayable in less than one year	-	-
Repayable in one to two years	-	-
Repayable in two to five years	-	30,000
Repayable after five years	-	-
	-	30,000
Less: amounts disclosed within creditors falling due within one year	-	-
	-	30,000

11. Called up share capital

		Authorised
	2002	*2001*
	£'000	*£'000*
24,000,000 ordinary shares of £1 each	24,000	24,000
1,000,000 'A' ordinary shares of £1 each	1,000	1,000
	25,000	25,000
100,000,000 7% redeemable preference shares of £1 each	100,000	100,000

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Notes to the Accounts

at 31 December 2002

11. Called up share capital (continued)

	Allotted, called up and fully paid		
	Ordinary shares £'000	*'A' ordinary £'000*	*Total £'000*
Ordinary shares of £1 each:			
At 31 December 2002 and 2001	8,322	603	8,925
7% redeemable preference shares of £1 each:			
At 31 December 2002 and 2001			20,142
Issued share capital at 31 December 2002 and 2001			29,067

The ordinary shares and the 'A' ordinary shares rank pari passu in all respects, save that dividends may be declared to the holders of one class of ordinary shares to the exclusion of the holders of the remaining class.

Preference shareholders have the right in priority to any payment to the holders of shares of any other class, to receive in respect of each financial year in which dividends are declared, a non-cumulative dividend at the rate of 7% per annum.

On a winding up preference shareholders have the right, in priority to any payment to the holders of shares of any other class, to the repayment of amounts paid up together with the amount of any accrued but unpaid dividends thereon but to no further right to participate in the profits or assets of the company.

Preference shareholders shall not be entitled to vote on any resolution (other than one varying rights attached to such shares) to receive notice of or to attend or vote at any general meeting unless the business of the meeting includes consideration of a resolution on which such holders are entitled to vote. In which event shareholders may only vote on the relevant resolution.

Preference shares shall be redeemed at par on the expiry of 30 days (or a shorter period agreed between the company and the shareholder) after receipt by the company of notice in writing from the shareholder requiring redemption. The directors have discretion to redeem some or all of the preference shares, subject to the timings given above at any time.

12. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	*Share premium account £000*	*Capital redemption reserve £000*	*Profit and loss account £000*	*Total £000*
At 31 December 2000	29,067	6,520	64,858	33,781	134,226
Profit for the year	-	-	-	49,695	49,695
At 31 December 2001	29,067	6,520	64,858	83,476	183,921
Loss for the year	-	-	-	(167,895)	(167,895)
At 31 December 2002	29,067	6,520	64,858	(84,419)	16,026

Notes to the Accounts

at 31 December 2002

13. Ultimate parent undertaking and controlling party

The immediate holding undertaking is Smurfit Holdings BV, a company incorporated in the Netherlands. At the year end, the ultimate parent undertaking and controlling party of the smallest and largest group of undertakings for which group accounts were drawn up and of which the company was a member was Jefferson Smurfit Group Limited, which is incorporated in the Republic of Ireland. The accounts of Jefferson Smurfit Limited are available from the company secretary c/o JSG, Beech Hill, Clonskeagh, Dublin 4, Ireland.

14. Contingent liabilities

The company has provided fixed and floating charges over its assets and income streams in relation to certain debt drawn down by the ultimate holding company, Jefferson Smurfit Group Limited.