

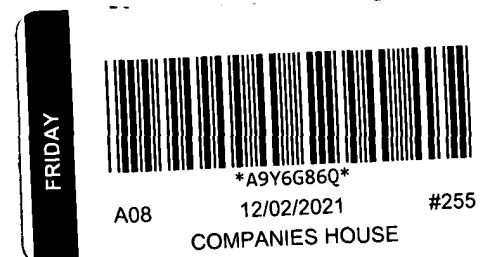
Registered number

03071064

Metsa Wood UK Limited

Report and Financial Statements

31 December 2019



Report and accounts**Contents**

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Company information

Directors

Henrik Soderstrom

Alice Olsson

Matti Pajula - appointed 1st May 2019

Secretary

Alice Olsson

Auditor

KPMG LLP

Botanic House

98 - 100 Hills Road, Cambridge,

Cambridgeshire, CB2 1AR

Registered office

Old Golf Course

Fishtoft Road, Boston

Lincolnshire, PE21 0BJ

Registered number

03071064

Strategic report**PRINCIPAL RISKS AND UNCERTAINTIES**

The key business risks affecting the company are:

Economic and Market risk

The company is directly impacted by the uncertainty of the Brexit environment and the ongoing COVID-19 pandemic, as are the company's main customers. Diversification of the customer portfolio continues in addition to building on production performance, volumes and efficiency in improving profitability through 2020. The stock exchange market fluctuation impacts growth in the company's pension scheme assets and liabilities and the size of any surplus or deficit. It also has an indirect impact to customers and suppliers which can lead to increases and decreases in demand for goods and services. The company takes this risk seriously, remains up to date with industry and market news and puts appropriate mitigating actions in place as required.

Liquidity and Interest rate risk

The Metsa Group treasury manages the risks relating to interest rates and liquidity. It is not the company's policy to use financial instruments.

Credit risk

The company uses comprehensive credit checks, backed by credit insurance to mitigate risk.

Foreign exchange risk

The company is exposed to movements in foreign exchange rates, where it purchases goods in foreign currencies having given firm prices in Sterling. Agreements are in place to review selling prices where movements in currency exceed an agreed level.

Pension risk

The company is exposed to movements in asset and liability value in regards to the defined benefit pension scheme. The trustees of the scheme manage the risk through employment of suitably qualified persons and regularly review the status.

Going Concern

The directors have considered the factors that impact the company's future development, performance, cash flows and financial position and in particular in light of COVID 19 impact. The most plausible downward scenarios have been reviewed together with a 36month forecast from the date of approval of these financial statements and they indicate that the Company will have sufficient funds to meet its liabilities as they fall due for that period. The financial statements, therefore, have been prepared on a going concern basis.

The market has recovered significantly post- March 2020. There is record demand for DIY products and the construction market shows promising recovery driving a significant increase in sales. Hardware stores are essential home maintenance retailers and as such demand, even in lockdown scenarios, is buoyant. The financing arrangements of the Company are robust and support a clear going concern conclusion.

Strategic report (continued)**SECTION 172 STATEMENT**

The Directors have acted in good faith with regard to their obligations under Section 172, a-f. The Directors hold regular board meetings to discuss and decide key topics and review a range of KPIs to understand and communicate business risk with a view to stakeholder and shareholder management.

a) Likely consequences of any decision in the long term

The Directors ensure adequate and appropriate sensitivity analysis, feasibility tests and forecasts are reviewed prior to making any long or short term decisions that may affect the performance of the business. Regular board and management meetings are held to review the long term targets of the organisation and ensure that any decision making is fully aligned to the long-term purpose and strategic objectives of the business. In reviewing the company strategy, the Directors review market and industry information, liaise with customers, suppliers and other stakeholders to understand their objectives and long term plans in assessing risk and opportunities and developing strategic direction. A summary of the key risks to the business are shown in the strategic report under the heading "Principle Risks and Uncertainties".

b) Interests of the company's employees

Our responsible management practices are based on our values and they create a foundation for everything we do. We believe that employees who are committed to our values, and our company, is what differentiates us as a business.

The Directors take decisions in accordance with preserving the company's going concern and maximising shareholder value, thereby ensuring adequate and sustainable long term employment of its employees. The Directors also adhere to a strict code of conduct, health and safety of our employees is paramount, we monitor and fully investigate any health and safety incidents, ensure we report within appropriate deadlines to regulatory bodies and proactively monitor hazard and risk reporting data to minimise the risk of accidents and safeguard our employees.

Job satisfaction and the functionality of the organisation is monitored annually through an organisational functionality survey and a variety of other personnel surveys.

Employees are updated on the performance of the business against set KPIs on a monthly basis to ensure they are adequately informed and understand the results.

c) Fostering the company's business relationships with suppliers, customers and others

Wood is the main raw material used in our production. In order to ensure that all the wood used for manufacturing purposes originates from sustainable sources and suppliers, all of our production sites are third party chain of custody certified (PEFC and/or FSC). This ensures full traceability of our raw materials. In addition to the Supplier Code of Conduct, supplier audits and evaluations are performed and further sustainability requirements are often agreed in the contracts. These forest certification schemes also have strict requirements for labour conditions.

The groups modern slavery statement, to which, Metsa Wood UK Limited is compliant can be found here: <https://www.metsagroup.com/en/Documents/Sustainability/Metsa-Group-Modern-Slavery-Act-Transparency-Statement.pdf>

Strategic report (continued)

Products made from renewable raw materials help to reduce dependence on fossil resources and offer sustainable choices for everyday life. We want to ensure that our suppliers follow our high ethical standards.

d) Impact of the company's operations on the community and the environment

The Directors understand that the company is a key local employer and monitor the business performance against key performance indicators to ensure adequate going concern to protect the local communities employment status.

Metsä Group has an 85-year history as a builder of, and forerunner in, sustainable forestry and forest-based industry. Climate change concerns us all, and our future must be based on the use of renewable resources. Northern wood is the world's best renewable raw material and the core of our business. Our carbon storing and recyclable products made from renewable raw materials offer sustainable solutions for global challenges with 100% traceability. We ensure sustainable forest management, wood supply and operations in forests. Where we operate, forests grow more than they are used.

e) Desirability of the company to maintain a reputation for high standards of business conduct

Our ethical foundation is our Code of Conduct, which we renewed in early 2019 and which we extensively trained our personnel during the year. We monitor the ethical performance of the business. All our personnel are expected to comply with applicable laws, act with integrity and make ethically sound decisions in their daily work. We also require the same level of ethical business practices from our suppliers – these practices and principles are stated in our Code of Conduct for Suppliers.

In 2019, the business launched an updated Compliance and Ethics Channel. It is hosted by a third party and notifications can be made anonymously – meaning that anonymity and impartiality are underlined. Metsä Group is committed to responsible business practices and expects the same from our business partners

f) Act fairly as between members of the company.

The Director understand the requirements of the persons of significant control and the shareholders of the business in equal measure. The Directors treat all stakeholders fairly and reasonably.

Strategic report (continued)**FUTURE DEVELOPMENTS AND POST BALANCE SHEET EVENTS**

Efforts to diversify the customer base and product base have been successful through 2019 and are predicted to continue through 2020.

The Covid-19 pandemic that emerged in January 2020 will have a significant impact on 2020 results. The majority of the companies customers closed during the end of March and April 2020 and the company served force majeure on its largest customer.

Since reopening at the end of April, the company has experienced higher than usual demand from the customer base and have been trading over budget for May and forecast June 2020. The results for April and May show 60% reduction in revenue over the two months, 26% decrease in overhead cost, a loss over two months of circa £1m. The company does not expect to incur further losses as trading has now returned to above budget levels and forecast figures including Covid 19 market conditions currently show a year end profit of over £1m, this is under budget but is a profit even given the Covid 19 impact.

DEFINED BENEFIT PENSION SCHEME

The company closed the scheme to future accrual from 31 March 2016.

KEY PERFORMANCE INDICATORS

The company regards gross profit percentage, operating profit on sales and return on capital employed as key financial indicators. These are assessed against budgets and the previous year.

The gross profit percentage has increased from 15.5% in 2018 to 17.9% in 2019.

Operating profit on sales has increased from a loss of 1.1% in 2018 to a profit of 2.0% in 2019.

All functions monitor their own performance by relevant measures such as unit costs of production, delivery costs per cubic metre and reportable accidents.

This report was approved by the board on 10th February 2021 and signed on its behalf.



Alice Olsson

Director

Registered office:

Metsa Wood UK Limited,

The Old Golf Course,

Fishtoft Road, Boston,

Lincolnshire, PE21 0BJ

Directors' report

The directors present their report and financial statements for the year ended 31 December 2019. The profit before tax for the financial year is £2.3 million (2018 : loss £2.2 million) on sales of £144.3 million (2018: £149.3 million).

Principal activities

The company's principal activity during the year continued to be that of importer, processor and distributor of timber and allied products.

Future developments

The emergence of the Covid-19 pandemic in January 2020 will impact the company's ability to achieve the budgeted revenue and profit levels for 2020. The majority of the company's customers closed in late March 2020, and remained so throughout April, resulting in significant loss of revenue for the month and temporary closure of our production activities. Following the reopening in May the company have experienced higher than usual demand from the customer base and have been trading over budget for May and forecast June 2020.

As well as recovery from the impact of the pandemic, the focus for 2020 will be negotiation of new business and building on current customer relationships. The diversified customer portfolio is expected to grow. Brexit has been considered and assessment has been made regarding the potential effect on the company. Actions have been taken to mitigate key risk areas including but not limited to; stock holding optimisation, currency protection in group, transitional simplified procedure development, transportation review from a risk base position and customs procedure protection.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The following persons served as directors during the year:

Henrik Soderstrom

Matti Pajula

Alice Olsson

The directors holding office at 31 December 2019 did not hold any beneficial interest in the issued share capital of the company at 1 January 2019 (or date of appointment if later) or 31 December 2019.

None of the directors own shares in Metsa Wood UK Limited.

Political Donations

Political donations in the year were £nil (2018: £nil).

Directors' report (continued)**Employees**

The group's policy is to consult and discuss with employees, through meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports, which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Corporate Responsibility

Metsa Wood UK Limited recognises and acknowledges that social and environmental responsibilities are important to corporate productivity and profitability, and are part of a sound business strategy. We appreciate that as a part of a large corporation we have both local and global impacts on the environment and communities, as well as a commitment to meeting customer demands, improving performance and maintaining a highly motivated and trained workforce.

Investment in People

We recognise that every business depends on people. Our custom built Timber Training Academy is used for training both our customers' staff and Metsa Wood employees. We deliver accredited training courses to our employees and customers as part of this process and to promote best practice.

Community Support

As an industry leader we are committed to building close links with the local communities in which we operate and believe in contributing to the well-being of the communities where business is conducted. We currently support and sponsor a range of initiatives from local community groups, school football teams, local individuals and members of staff.

Information Sharing

Metsa Wood is determined to ensure its customers are kept fully up to date and properly informed on all the key issues affecting the trade. Our information service includes well trained staff and a range of regularly updated fact sheets covering topics such as forest certification, legislation, product standards and product-specific health and safety issues.

Responsible Timber Procurement Policy

Metsa Wood UK Limited assesses all timber and timber product suppliers so we can clearly identify where all our timber has been sourced and employ risk analysis when making buying decisions. Independent credible evidence of sourcing and good forest management is sought from all our suppliers of wood and wood products to ensure that, as a minimum, the timber originates from legal and preferably well-managed sources.

Directors' report (continued)

Responsible Timber Procurement Policy (continued)

As a minimum we monitor all our suppliers to avoid:

- wood harvested from forests that are threatened or valuable in terms of their habitat and biodiversity, unless they are certified;
- wood harvested from areas where levels of illegal logging are high unless the supplier is undergoing an independently verified improvement programme;
- wood harvested from forest areas where traditional or civil rights are violated;
- wood harvested from natural forests that have been converted to plantations; and
- wood harvested from genetically-modified trees.

We believe that active engagement is the way forward to work with suppliers to meet our requirements. We recognise the importance of government and non-governmental organisations when assessing or working with our suppliers. Sometimes, we alone cannot achieve our objectives and in this case we will enlist the support of independent third party organisations to ensure that suppliers work to improve their forestry or sourcing practices. As part of our policy commitment, we will set progressive targets to achieve our aim of being the UK's largest leading supplier of certified timber. This information is verifiable and frequently monitored as part of our externally audited PEFC and FSC Chain of Custody processes. Metsa Wood UK supports the work, and is a signatory of the Timber Trade Federation (Forests Forever) Responsible Timber.

Defined Benefit Pension Scheme

The company operates a defined benefit scheme which was closed to future accrual on 31 March 2016. A trustees' actuarial valuation of the defined benefit scheme was carried out on 5 April 2017. The company will contribute £950,000 per annum until the 31 August 2023, towards reducing the scheme's deficit in the trustee valuation (surplus in IAS19 valuation).

Lease accounting

The company adopted the IFRS 16 accounting policy for leases from 1 January 2019 which has impacted the value of both assets and liabilities of the company. Further details on this can be found in the Statement of financial position and notes 3 and 7 of this report.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware,

and

- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' report (continued)

Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the strategic report in page 4.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on **Feb 10, 2021** and signed on its behalf.



Matti Pajula

Director

Registered office:

Metsa Wood UK Limited,

The Old Golf Course,

Fishtoft Road, Boston,

Lincolnshire, PE21 0BJ

Statement of Director Responsibilities

The directors are responsible for preparing the strategic report, the directors' report and financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Metsa Wood UK Limited

Opinion

We have audited the financial statements of Metsa Wood UK limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement and Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework ; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

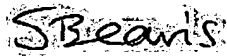
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

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.



Stephanie Beavis (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Botanic House, 100 Hills Road, Cambridge, CB2 1AR

Date: 11 February 2021

Income statement**for the year ended 31 December 2019**

	Notes	2019	2018
		£'000	£'000
Turnover	4	144,288	149,257
Cost of sales		(118,413)	(126,156)
Gross profit		<u>25,875</u>	<u>23,101</u>
Distribution costs		(15,916)	(16,073)
Administrative expenses		(7,142)	(8,632)
Other operating income		-	-
Operating profit/loss	5	<u>2,817</u>	<u>(1,604)</u>
Loss on sale of fixed assets		-	(18)
Interest receivable	8	253	98
Interest payable	9	(736)	(673)
Profit/(loss) on ordinary activities before taxation		<u>2,334</u>	<u>(2,197)</u>
Tax on profit/(loss) on ordinary activities	10	(477)	311
Profit/(loss) for the financial year		<u>1,857</u>	<u>(1,886)</u>

The accompanying notes form part of these financial statements

Statement of comprehensive income
for the year ended 31 December 2019

	Notes	2019	2018
		£'000	£'000
Profit/(Loss) for the financial year		1,857	(1,886)
Other comprehensive income			
Items that will not be classified to profit or loss:			
Actuarial gains/(losses) related to pension scheme	22	(4,457)	2,968
Current tax:			
Losses	10	181	-
Deferred tax:			
Pensions	10	596	(505)
		<u>(3,680)</u>	<u>2,463</u>
Total comprehensive income for the year		<u>(1,823)</u>	<u>577</u>

The accompanying notes form part of these financial statements

Statement of financial position for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	11	379	658
Tangible assets	12	10,675	10,969
Right of use assets	13	646	-
Deferred tax asset	18	161	-
Pension asset	22	2,433	5,741
		<u>14,294</u>	<u>17,368</u>
Current assets			
Stocks	14	25,445	28,147
Debtors	15	20,839	18,750
		<u>46,284</u>	<u>46,897</u>
Creditors: amounts falling due within one year	16	<u>(10,801)</u>	<u>(12,493)</u>
Net current assets		<u>35,483</u>	<u>34,404</u>
Total assets less current liabilities		<u>49,777</u>	<u>51,722</u>
Provision for liabilities			
Creditors: amount falling due after more than one year	17	(13,533)	(13,261)
Deferred tax liability	18	-	(444)
Net assets		<u>36,244</u>	<u>38,067</u>
Capital and reserves			
Called up share capital	19	30,000	30,000
Other reserves	20	627	581
Profit and loss account		5,617	7,486
Total equity		<u>36,244</u>	<u>38,067</u>



Matti Pajula, Director

Approved by the board on : **Feb 10, 2021**

The accompanying notes form part of these financial statements

Statement of changes in equity
for the year ended 31 December 2019

	Share capital £'000	Other reserves £'000	Profit and loss £'000	Total £'000
At 1 January 2018	30,000	581	6,909	37,490
Total comprehensive income	-	-	577	577
At 31 December 2018	<u>30,000</u>	<u>581</u>	<u>7,486</u>	<u>38,067</u>
At 1 January 2019	30,000	581	7,486	38,067
Total comprehensive income	-	-	(1,823)	(1,823)
Reclassification	-	46	(46)	-
At 31 December 2019	<u>30,000</u>	<u>627</u>	<u>5,617</u>	<u>36,244</u>

The accompanying notes form part of these financial statements

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies

Metsa Wood UK Limited is a private company incorporated, domiciled and registered in England in the UK. The registered number is 03071064 and the registered address is on page 3.

Basis of preparation

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

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of IFRS as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary to comply with Companies Act 2006, and has set out below where advantage of the FRS101 disclosure exemptions have been taken.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies (continued)

Going Concern

The directors have considered the factors that impact the company's future development, performance, cash flows and financial position along with the company's current liquidity, including managing its day to day working capital, in forming their opinion on the going concern basis. The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

- Scenario planning including developing of a severe but plausible downside scenario has been executed for the coming three years. Variables such as significant downside on volume of demand (worst case -19%), worsening to cost of sales and fixed overhead development (worst case +17%) have been reviewed and found not to impact the going concern conclusion;
- The timber market has developed significantly during the post-lockdown period. Leisure spend earmarked for travel has become diverted into the DIY and construction market which is driving a significant increase in sales. Q3 2020 sales volume is 34% increased on Q3 2019.
- The majority of Metsa customers in the UK are now confirmed to be classified as essential, due to their nature as hardware stores and essential home maintenance retailers, given this clarity in the definition the risk of a repeat of the of the March/April 2020 retail and site closure is deemed very low. When considering a possible repeat and having reviewed the scenarios, the Directors are confident that the business can sustain the impact of a repeat closure for a similar length of time in a worst case scenario and that there will be no impact the going concern conclusion.
- Metsa Wood UK Limited have made no arrangement for any new or change to existing lending facilities post balance sheet date. There has been no need for any renegotiation or waiving of bank covenants;
- The financing arrangements of the Company are robust and no change has been required to these over the COVID 19 pandemic impact period. Metsa Wood UK Limited currently have an unutilised £5m overdraft facility at Nordea Bank and the cash balance as at 31.01.2021 was £17.15m.
- The Company participates in the Group's centralised treasury arrangements through a cash pool facility. However, as confirmed with Metsäliitto Osuuskunta, the cash remains available for Metsa Wood Limited and can called upon and used immediately.
- In the event of any worsening of liquidity the board could swiftly sell existing inventory to the current market (which, on the date of signing the accounts, continues to be highly active and buoyant) or utilise its overdraft facility. In the all downward scenarios assessed Metsa could repay the intercompany creditor if required.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies (continued)

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Turnover

Turnover represents the invoiced value of goods and services supplied by the company, net of value added tax and trade discounts. Turnover is recognised when goods are despatched or services provided. The nature of goods sold by the company are timber and allied products to retailers and the construction industry.

Expenses

Operating lease payments (policy applicable before 1 January 2019)

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable and finance expense on lease liabilities (prior to 1 January 2019 finance leases under IAS 17) recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income includes interest receivable on funds invested and net foreign exchange gains and is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies (continued)

Leases (policy applicable from 1 January 2019)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. 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.

As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and

Notes to the Accounts**for the year ended 31 December 2019****1 Accounting policies (continued)****Leases (continued)**

- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Employee benefits*Defined contribution plans*

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

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Notes to the Accounts**for the year ended 31 December 2019****1 Accounting policies (continued)****Employee benefits (continued)**

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Intangible fixed assets

Intangible assets acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis as follows:-

Software - 5 years

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulative depreciation and any accumulative impairment losses. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	up to 50 years
Leasehold land and buildings	-	over the lease term
Plant and machinery	-	5 - 15 years

Land is not depreciated.

Stocks

Stocks and work in progress are valued at the lower cost and net realisable value. Cost comprises the purchase price of raw materials and merchandise with the addition where appropriate, of labour and overhead costs incurred in bringing the product to its present location and condition.

Net realisable value is the price at which stock can be realised in the normal course of business after allowing for costs of realisation. Provision is made for obsolete, slow moving and defective stock.

Notes to the Accounts**for the year ended 31 December 2019****1 Accounting policies (continued)****Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short term highly liquid investments. Cash and cash equivalents include items with original maturities of 6 months or less from the date of acquisition. The carrying amounts represent their fair value. As such no separate disclosure of fair value is required. All transactions are recognised on their transaction date.

Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. All transactions are recognised on their transaction date.

Creditors

Creditors are initially measured at fair value and afterwards measured by amortised cost. All transactions are recognised on their transaction date.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax-rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Provisions

Provisions (i.e. liabilities of uncertain timing or amount) are recognised when there is an obligation at the reporting date as a result of a past event, it is probable that economic benefit will be transferred to settle the obligation and the amount of the obligation can be estimated reliably.

Notes to the Accounts**for the year ended 31 December 2019****1 Accounting policies (continued)****Foreign currency translation**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Income Statement.

Financial instruments*Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies (continued)

Financial instruments (continued)

Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

Notes to the Accounts**for the year ended 31 December 2019****1 Accounting policies (continued)****Financial instruments (continued)**

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Share Capital

Ordinary shares and redeemable, non-cumulative preferences shares are classified as equity. The dividends on these preference shares are recognised in shareholders' funds.

Notes to the Accounts

for the year ended 31 December 2019

2 Accounting estimates and judgements

Defined benefit pension

The costs, assets and liabilities of the defined benefit pension scheme operating within the Company are determined using methods relaying on actuarial estimates and other assumptions. Details of the key assumptions are set out in Note 22.

Recent economic circumstances and volatility in financial markets has caused the valuation of pension assets to become subject to a greater degree of uncertainty. In particular there is a much less active market in certain asset classes (such as corporate bonds, property and unquoted private equity investments). The fair value of the pension assets is determined based on valuations obtained from third parties and employ a variety of methods. Where available this will typically be the market price at the balance sheet date. However, for certain asset types other valuation methods are used including net asset valuation which involves a higher degree of estimation and subjectivity.

An employer's covenant assessment has been carried out by the trustees at the end of April 2020 to include the worst case Covid 19 impact assessment. The Trustees continue to rate the UK business as slightly strong. Metsa Wood UK Limited have consistently committed to the deficit recovery plan agreed with the trustees, there has been no deviation to this in light of the Covid 19 impacts. The investment strategy has been reviewed by the Trustees in light of the Covid 19 impacts and no change is recommended. The asset and liabilities within the scheme have also been assessed and reviewed against industry benchmarks and the impact to the scheme is limited by some movements the Trustees made between LDI funds during Q1.

Bad debt risk

The Covid-19 pandemic and its longer term effects on the economy impact the companies risk of bad debt. So far, no bad debts have been written off since the emergence of the pandemic, overdue debt increased slightly over April as companies shut down and furloughed staff but has since reduced as they have reopened and resumed ordering. The company uses comprehensive credit checks, backed by credit insurance to mitigate risk and the group credit function constantly monitors any factors that may impact on the company's ability to recover debts.

3 Change in significant accounting policies

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 January 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition, the Company has reassessed all contracts to assess whether they contain a lease based upon this definition.

Notes to the Accounts

for the year ended 31 December 2019

3 Change in significant accounting policies (continued)

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019 (see note 7).

Right-of-use assets were measured at:

-an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these were:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements for the year ending 31 December 2019.

Impact of adoption of IFRS 16			
	As reported £'000	Adjustments £'000	Balance without adoption of IFRS 16 £'000
Balance sheet			
Property, plant and equipment	11,321	(646)	10,675
Creditors falling due within one year	10,801	(368)	10,433
Creditors falling due after more than one year	13,533	(272)	13,261

Notes to the Accounts

for the year ended 31 December 2019

3 Change in significant accounting policies (continued)

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 2.76%.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 December 2018 in the Company's financial statements and the lease liabilities recognised at 1 January 2019:

	1 January 2019 £'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	1,656
Discounted using the incremental borrowing rate at 1 January 2019	(56)
Finance lease liabilities recognised as at 31 December 2018	-
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	(251)
Lease liabilities recognised as at 1 January 2019	1,349

Notes to the Accounts
for the year ended 31 December 2019

4	Analysis of turnover	2019	2018
		£'000	£'000
	Sale of goods	144,288	149,257
		<u>144,288</u>	<u>149,257</u>
	By geographical market:		
	UK	142,162	145,925
	Europe	1,975	3,332
	Rest of world	151	-
		<u>144,288</u>	<u>149,257</u>
5	Operating profit	2019	2018
		£'000	£'000
	This is stated after charging:		
	Depreciation of owned fixed assets	668	1,081
	Depreciation of right of use assets	819	-
	Amortisation of intangible assets	279	279
	Operating lease rentals - plant and machinery	-	1,094
	Operating lease rentals - land and buildings	-	696
	Research and development expenditure	70	105
	Auditor's remuneration for audit services	<u>64</u>	<u>61</u>

Notes to the Accounts

for the year ended 31 December 2019

6	Staff costs	2019	2018
		£'000	£'000
	Wages and salaries	13,073	13,632
	Social security costs	1,193	1,310
	Other pension costs	697	706
		<u>14,963</u>	<u>15,648</u>
	Average number of employees during the year	Number	Number
	Sales & Administration	90	97
	Manufacturing & Distribution	308	320
		<u>398</u>	<u>417</u>
	Directors' emoluments	2019	2018
		£'000	£'000
	Emoluments	340	234
	Company contributions to defined contribution pension plans	11	31
		<u>351</u>	<u>265</u>
	Highest paid director:	2019	2018
		£'000	£'000
	Emoluments	215	106
	Company contributions to defined contribution pension plans	-	18
		<u>215</u>	<u>124</u>
	Number of directors to whom retirement benefits accrued:	2019	2018
	Defined contribution plans	1	3
	Defined benefit plans	-	-

Only two of the company's directors are paid by the UK business, and only one receives retirement benefits accrued in the UK.

Notes to the Accounts

for the year ended 31 December 2019

7 Leases

The information provided, together with the information provided in the statement of financial position and statement of profit or loss, should give a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

Right of use assets

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 11):

	Buildings & Constructions £'000	Machinery & Vehicles £'000	Total £'000
At 1 January 2019	-	-	-
Additions to right of use assets	48	1,417	1,465
Depreciation charge for the year	(20)	(799)	(819)
Derecognition of right of use assets	-	-	-
At 31 December 2019	<u>28</u>	<u>618</u>	<u>646</u>

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the Company is a lessee:

2019 - Leases under IFRS 16

Interest expenses on lease liabilities	27
Expenses relating to short-term leases	<u>457</u>
	<u>484</u>

2018 – Operating leases under IAS 17

Lease expense	<u>1,790</u>
	<u>1,790</u>

8	Interest receivable and similar income	2019 £'000	2018 £'000
	Group interest	54	40
	Net income on pension	<u>199</u>	<u>58</u>
		<u>253</u>	<u>98</u>

Notes to the Accounts

for the year ended 31 December 2019

9	Interest payable	2019	2018
		£'000	£'000
	Interest on intercompany loan	401	303
	Other loans	308	370
	Lease interest	27	-
		<u>736</u>	<u>673</u>
 10	 Taxation	 2019	 2018
		£'000	£'000
	Analysis of charge in period		
	Current tax:		
	UK corporation tax on profits of the period	181	-
	Adjustments in respect of previous periods	385	(2)
		<u>486</u>	<u>(2)</u>
	Deferred tax:		
	Fixed assets	117	20
	Losses	178	(556)
	Pensions	38	192
	Adjustments in respect of previous periods	(307)	(1)
	Effect of increased tax rate on opening liability	35	36
		<u>(9)</u>	<u>(309)</u>
	Tax on profit/(loss) on ordinary activities	<u>477</u>	<u>(311)</u>
	Other comprehensive income items :		
	Current tax	(181)	-
	Deferred tax current year charge/(credit)	(596)	505
		<u>(777)</u>	<u>505</u>

Notes to the Accounts

for the year ended 31 December 2019

10 Taxation (continued)

Factors affecting tax charge for period

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	2019	2018
	£'000	£'000
Profit/(loss) on ordinary activities before taxation	2,334	(2,197)
Standard rate of corporation tax in the UK	19.00%	19.00%
	£000's	£000's
Profit on ordinary activities multiplied by the standard rate of corporation tax	443	(417)
Effects of:		
Expenses not deductible for tax purposes	18	77
Tax rate changes	(35)	36
Non qualifying depreciation	52	-
Movement in unprovided deferred tax	-	(4)
Rounding	1	-
Adjustment to tax charge in respect of previous periods (2)	(3)	(3)
Current tax charge for period	477	(311)

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £18,999.

Notes to the Accounts**for the year ended 31 December 2019****11 Intangible fixed assets**

Computer software	£'000
Cost	
At 1 January 2019	4,778
At 31 December 2019	<u>4,778</u>
Amortisation	
At 1 January 2019	4,120
Amortisation for the year	279
At 31 December 2019	<u>4,399</u>
Carrying amount	
At 31 December 2019	<u>379</u>
At 31 December 2018	<u>658</u>

The amortisation charge is recognised in the administrative expense line item in the income statement.

Notes to the Accounts

for the year ended 31 December 2019

12 Tangible fixed assets

	Freehold Property <i>At cost</i> £'000	Short Leasehold <i>At cost</i> £'000	Plant and Machinery <i>At cost</i> £'000	Total £'000
<i>Cost or valuation</i>				
At 1 January 2019	15,664	50	31,744	47,488
Additions	-	-	377	374
Disposals	(76)	-	(103)	(176)
At 31 December 2019	<u>15,588</u>	<u>50</u>	<u>32,048</u>	<u>47,686</u>
<i>Depreciation</i>				
At 1 January 2019	7,864	50	28,605	36,519
Charge for the year	276	-	392	668
On disposals	(73)	-	(103)	(176)
At 31 December 2019	<u>8,067</u>	<u>50</u>	<u>28,894</u>	<u>37,011</u>
<i>Carrying amount</i>				
At 31 December 2019	<u>7,521</u>	<u>-</u>	<u>3,154</u>	<u>10,675</u>
At 31 December 2018	<u>7,800</u>	<u>-</u>	<u>3,169</u>	<u>10,969</u>
			2019	2018
			£'000	£'000
Carrying amount of land and buildings on cost basis			<u>7,730</u>	<u>8,009</u>

Notes to the Accounts

for the year ended 31 December 2019

13 Right of use assets

	Buildings & Constructions £'000	Machinery & Vehicles £'000	Total £'000
Cost or valuation			
At 1 January 2019	-	-	-
Additions	48	1,417	1,465
Disposals	-	-	-
At 31 December 2019	<u>48</u>	<u>1,417</u>	<u>1,465</u>
Depreciation			
At 1 January 2019	-	-	-
Charge for the year	20	799	819
On disposals	-	-	-
At 31 December 2019	<u>20</u>	<u>799</u>	<u>819</u>
Carrying amount			
At 31 December 2019	<u>28</u>	<u>618</u>	<u>646</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

14 Stocks	2019 £'000	2018 £'000
Raw materials and consumables	6,337	6,056
Work in progress	121	255
Finished goods and goods for resale	18,987	21,836
	<u>25,445</u>	<u>28,147</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £105.2m (2018: £111.3m).

The write down of stocks to net realisable value amounted to £0.4m (2018: £0.3m). The write down and reversal are included in the cost of sales.

Notes to the Accounts

for the year ended 31 December 2019

15 Debtors	2019	2018
	£'000	£'000
Trade debtors	11,738	13,913
Amounts owed by group undertakings	152	142
Metsa Group Treasury Oy - intergroup clearance account	7,865	3,087
Corporation tax	185	490
Other debtors	95	259
Prepayments and accrued income	804	859
	<u>20,839</u>	<u>18,750</u>

The intergroup balance is repayable on demand

16 Creditors: amounts falling due within one year	2019	2018
	£'000	£'000
Bank overdrafts	79	79
Trade creditors	6,922	7,104
Amounts owed to group undertakings	931	2,703
Other taxes and social security costs	324	344
VAT	890	1,026
Lease liabilities	368	-
Accruals and deferred income	1,287	1,237
	<u>10,801</u>	<u>12,493</u>

17 Creditors: amounts falling due after more than one year	2019	2018
	£'000	£'000
Amount owed to group undertakings	13,261	13,261
Lease liabilities	272	-
	<u>13,533</u>	<u>13,261</u>

Settlement date on intercompany loan is 28/08/30, the interest rate is 2.87%

Notes to the Accounts

for the year ended 31 December 2019

18 Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets	-	(87)	30	-	30	(87)
Temporary differences trading	(10)	(10)	-	-	(10)	(10)
Tax losses carried forward	(595)	(497)	-	-	(595)	(497)
Pensions	-	-	414	1,038	414	1,038
Net tax (assets)/liabilities					<u>(161)</u>	<u>444</u>

Movement in deferred tax during the year

	Fixed Assets	Temporary differences trading	Tax losses carried forward	Pensions
	£'000	£'000	£'000	£'000
1 January 2019	(87)	(10)	(497)	1,038
Prior year adjustment	13	-	(257)	(62)
Recognised in income	104	-	159	34
Recognised in equity	-	-	-	(596)
31 December 2019	<u>30</u>	<u>(10)</u>	<u>(595)</u>	<u>414</u>

Notes to the Accounts

for the year ended 31 December 2019

18 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the prior year

	Fixed Assets	Temporary differences trading	Tax losses carried forward	Pensions
	£'000	£'000	£'000	£'000
1 January 2018	(104)	(10)	-	362
Prior year adjustment	(1)	-	-	-
Recognised in income	18	-	(497)	171
Recognised in equity	-	-	-	505
31 December 2018	<u>(87)</u>	<u>(10)</u>	<u>(497)</u>	<u>1,038</u>

19	Share capital	Nominal value	Number	2019 £'000	2018 £'000
	Allotted, called up and fully paid:				
	Ordinary shares	£1 each	25,000	25,000	25,000
	Preference shares	£1 each	5,000	5,000	5,000
				<u>30,000</u>	<u>30,000</u>

20	Other reserves	2019 £'000	2018 £'000
	Revaluation reserve	£'000	£'000
	At 1 January 2019	581	581
	At 31 December 2019	<u>627</u>	<u>581</u>

21	Capital commitments	2019 £'000	2018 £'000
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Amounts contracted for but not provided

in the accounts

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Notes to the Accounts

for the year ended 31 December 2019

22 EMPLOYEE BENEFIT OBLIGATIONS

The Finnforest UK Pension Plan is made up of a defined contribution scheme and a defined benefit scheme, both administered by JLT Benefit Solutions Limited.

Finnforest UK Pension Plan - Group Personal Plan ("GPP")

The pension cost for the Plan, which represents contributions payable by Metsa Wood UK Limited, amounted to £696,658 (2018: £705,675). There are no outstanding contributions at the statement of financial position date (2018: £nil).

Finnforest UK Pension Plan - Defined Benefit Scheme

The Scheme is a funded defined benefit arrangement. The company operates a defined benefit scheme in the UK, which was closed to future accrual on 31 March 2016. The Scheme is exposed to the following risks:

- Financial risks from changing economic conditions, e.g. inflation and interest rate risks
- Longevity, i.e. the risk of benefits costing more due to members living longer.

Under UK pensions legislation, the company is responsible for funding the Scheme benefits and for paying contributions to make up any shortfall between the assets and the liabilities of the Scheme. The Scheme liabilities are assessed at least every three years by the Scheme's actuary. It is the company's funding policy to annually contribute an amount agreed between the company and the Trustees of the Scheme in accordance with UK legislative requirements if a funding deficit exists. The amount of contributions required depends on the assumptions used by the actuary and can therefore be volatile between actuarial valuations. This volatility of contribution amounts can be to the detriment of the company's cashflows and impacts on the Statement of Comprehensive Income. The volatility of the Scheme's liabilities against the assets held impacts on the company's statement of financial position.

A full actuarial valuation was carried out at 5 April 2017. The company currently pays contributions of £950,000 per annum in line with the Recovery Plan agreed following the 2017 valuation. The 2019 IAS19 results have been used for this disclosure and updated to 31 December 2019 by a qualified actuary, independent of the Scheme's sponsoring employer. The major assumptions used by the actuary to update the results are shown below.

Notes to the Accounts

for the year ended 31 December 2019

22 EMPLOYEE BENEFIT OBLIGATIONS (continued)

Principal actuarial assumptions

	2019	2018
Discount rate	2.00%	3.20%
Inflation	3.10%	3.40%
Salary increases	n/a	n/a
Allowance for pension in payment increases RPI or 5% p.a. if less	3.10%	3.40%
Pension increases in payment in line with RPI 3% p.a. if less	2.90%	2.90%
Deferred pension revaluation	2.10%	2.40%
Expected return on Scheme assets	n/a	n/a
Cash commutation	100% of maximum	100% of maximum

	2019	2018
Life expectancy at age 65 for a male / female:	Years	Years
For member currently aged 65	22.1/24.0	22.6/24.5
For member aged 65 in 20 years	23.1/25.2	23.7/25.7

Amounts recognised in Statement of financial position

	2019	2018
	£'000	£'000
Total market value of assets	55,356	51,308
Actuarial value of liabilities	(52,923)	(45,567)
Surplus / (Deficit) in the Scheme	2,433	5,741

Total expense recognised in Statement of comprehensive income

	2019	2018
	£'000	£'000
Current service cost	-	-
Interest on net defined benefit liability	(199)	(58)
Total expense recognised in Statement of Comprehensive Income	(199)	(58)

Notes to the Accounts

for the year ended 31 December 2019

22 EMPLOYEE BENEFIT OBLIGATIONS (continued)

Actual return / (loss) on fair value of Scheme assets	2019	2018
	£'000	£'000
Actual return	4,983	(960)
Changes in the fair value of defined benefit obligation	2019	2018
	£'000	£'000
Opening defined benefit obligation	45,567	51,551
Employer service cost	-	-
Interest cost	1,428	1,315
Actuarial (gains) / losses	7,813	(5,301)
Benefits paid	(1,885)	(1,998)
Closing fair value of defined benefit obligation	52,923	45,567
Change in fair value of scheme assets	2019	2018
	£'000	£'000
Opening fair value of scheme assets	51,308	53,316
Expected return	1,627	1,373
Actuarial gains / (losses)	3,356	(2,333)
Employer contributions	950	950
Benefits paid	(1,885)	(1,998)
Closing fair value of Scheme assets	55,356	51,308

Notes to the Accounts

for the year ended 31 December 2019

22 EMPLOYEE BENEFIT OBLIGATIONS (continued)

Amounts recognised in Other Comprehensive Income	2019	2018
	£'000	£'000
Actuarial losses	(7,843)	-
Actuarial gains	-	5,339
Experience gains / (losses)	30	(38)
Actuarial gains / (losses) on fair value of Scheme assets	<u>3,356</u>	<u>(2,333)</u>
Total amount	<u>(4,457)</u>	<u>2,968</u>

Sensitivity assumptions

	Change in the liabilities (%)
Assumptions as per IAS 19 disclosures	n/a
0.5% p.a. reduction in discount rate	9.00%
0.5% p.a. increase in inflation	5.00%
Pensions payable for 1 year longer due to mortality assumptions	4.00%

The sensitivities show the effect of a change in the significant actuarial assumptions used to measure the Plan's obligations. The sensitivities are based on approximate calculations.

History of Balance Sheet amounts and experience adjustments	2019	2018
	£'000	£'000
Defined benefit obligation	<u>(52,923)</u>	<u>(45,567)</u>
Fair value of Plan assets	<u>55,356</u>	<u>51,308</u>
Surplus / (Deficit) in the Plan	<u>2,433</u>	<u>5,741</u>
Experience adjustments on Plan Assets		
Amount	3,356	(2,333)
Percentage of Plan Assets	<u>-6.1%</u>	<u>-4.6%</u>
Experience adjustments on Defined Benefit Obligation		
Amount	30	(38)

Percentage of Defined Benefit Obligation

-0.1%0.1%**Notes to the Accounts****for the year ended 31 December 2019****22 EMPLOYEE BENEFIT OBLIGATIONS (continued)****The major categories of Scheme assets as a percentage of total Scheme assets**

	2019	2018
Equities	25.20%	23.50%
Bonds/LDI	47.00%	46.60%
Property	4.80%	4.380%
Cash & other	23.00%	25.10%

Breakdown of total Scheme assets by category

	2019	2018
	£'000	£'000
Equities	13,959	12,057
Bonds/LDI	26,023	23,910
Property	2,635	2,463
Cash & other	<u>12,739</u>	<u>12,878</u>
	55,356	51,308

Total gains / (losses) in Other Comprehensive Income

	2019	2018
	£'000	£'000
Total gains / (losses)	<u>(4,457)</u>	<u>2,968</u>

Expected contribution to the defined benefit obligation for 2020

	£'000
Expected contribution	950

Notes to the Accounts**for the year ended 31 December 2019****23 Ultimate Controlling party**

The company is a subsidiary of Metsäliitto Osuuskunta.

The directors regard Metsäliitto Osuuskunta, a company incorporated in the Finland, as the immediate and controlling party of the company. The company's financial statements are consolidated by Metsäliitto Osuuskunta which is the smallest and largest group to do so. The consolidated accounts for Metsäliitto Osuuskunta are available from:

Metsäliitto Osuuskunta

PO Box 10

Fin-02020

Metsa

Finland

24 Post balance sheet events

There have been no material post balance sheet events. The possible impacts of COVID-19 are discussed in the strategic report and also in the basis of preparation in note 1.