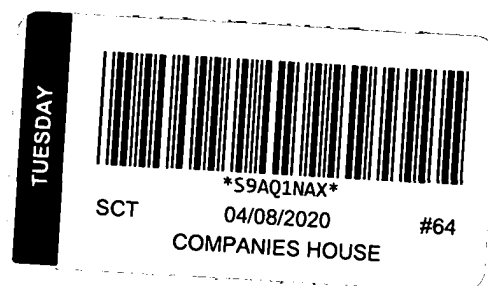


Registered number: 04033572

Ahlstrom-Munksjö Chirnside Limited

Annual report and financial statements

31 December 2019



Contents

	Page
Strategic report	1
Directors' report	6
Statement of directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements	7
Independent auditor's report to the members of Ahlstrom-Munksjö Chirnside Limited	8
Profit and Loss Account and Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13

Strategic report

The directors present their strategic report on the company for the year ended 31 December 2019.

Business review

The principal activity of the Company continued to be the manufacture and sale of speciality paper and non-woven materials.

Against a background of an increasingly challenging competitive environment, operating loss decreased from £3.632 million in the previous year to £2.088 million in 2019. The increased loss in 2018 was largely attributable to the GMP equalisation adjustment of £1 million that was recognised during that year. Loss before taxation reduced from £4.414 million to £3.439 million. Turnover at £58.129 million was up 6.6% in comparison to the previous year.

The Company's financial position at the end of the year was net current assets of £24.885 million (2018: net current assets £32.326 million) and net assets of £22.693 million (2018: £28,608 million) respectively.

Financial risk management

The Company's operations expose it to a number of financial risks, which include the effects of the currency market, raw material availability and prices. The Company continues to ensure policies and practices are in place to minimize the effects of such risk.

Principal risks and uncertainties

The principal risks and uncertainties affecting the business include the following:

- **Coronavirus:** The Company has assessed the plausible impacts to its future financial forecasts and budgets and, given the nature of its industry sector, is currently not anticipating any significant impacts to its ability to meet its business objectives or to experience a significant operating cash flow impact. The risks of Coronavirus have been mitigated within the business, with risk assessments performed with respects to employees, customers and suppliers. The Company continues to trade at full capacity and supplies products to key service sectors within the UK.
- **Raw material availability and prices:** the Company monitors raw material sources on a global basis and negotiates forward purchase contracts where appropriate with key suppliers.
- **Environmental risks:** Ahlstrom-Munksjö Corporation places considerable emphasis upon environmental compliance in each of its businesses and not only seeks to ensure on-going compliance with relevant legislation but also strives to ensure that environmental best practice is incorporated into its key processes. In addition, an environmental report setting out the Company's approach to environmental management is prepared and issued to shareholders annually and is made available to all other stakeholders on request.
- **Debtor recoverability:** the Company maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed.
- **Major disruption/disaster:** business continuity planning is reviewed regularly. In addition, a formal Business Continuity Plan has been implemented.
- **The effect of legislation or other regulatory activities:** the Company monitors forthcoming and current legislation regularly.
- **New product, project and technology risk:** the Company develops new technologies and introduces new products to the market. All new technologies and products involve business risk both in terms of possible abortive expenditure, reputational risk and potentially customer claims or onerous contracts. Such risks may materially impact the Company.
- **Litigation:** the Company is subject to litigation from time to time. The outcome of legal action is always uncertain and there is always the risk that it may prove more costly and time consuming than expected. There is a risk that litigation could be instigated in the future which could materially impact the Company. In some liability cases legal expenses are covered by insurance.

Strategic report (continued)

Principal risks and uncertainties (continued)

- **Competitive risk:** The Company operates in highly competitive markets. Product innovations or technical advances by competitors could adversely affect the Company.

Key performance indicators

Key financial performance indicators include the monitoring of the management of profitability and working capital.

Key non-financial performance indicators include the monitoring of our employees' health and safety, in addition to the Company's environmental impact and energy consumption.

	2019	2018	Measure
Financial			
Loss on capital	(15)%	(15)%	Loss before taxation/net assets
Working capital days of sales	156	83	Working capital/turnover x 365
Sales per employee (£'000)	316	315	Turnover/average number of employees
Non-financial			
Accident Frequency Rate	2.00	3.24	Total lost time accidents/hours worked x 1,000,000
Specific Energy Consumption (SEC)	8.8	8.3	Mwh per tonne produced
Carbon dioxide emitted	18.496	18.272	Tonnes (000)
Total waste removed from site	0.180	0.336	Tonnes (000)
Specific effluent discharge	397.0	372.0	M ³ per tonne produced
Total water used	3,346.7	3,295.1	M ³ (000)

Strategic report (continued)

SECTION 172(1) STATEMENT & STAKEHOLDER ENGAGEMENT

The Board of Ahlstrom-Munksjö Chirnside Limited consider that we have adhered to the requirements of section 172 of the Companies Act 2006 and have, in good faith, acted in a way that we consider would be most likely to promote the success of Ahlstrom-Munksjö Chirnside Limited for the benefit of its shareholders as a whole. In doing so, we have recognised the importance of considering all stakeholders and other matters (as set out in s.172(1)(a-f) of the Act) in its decision-making.

The new reporting legislation around stakeholder engagement is welcomed by the Board and the commentary and table below sets out our s.172(1) statement. This statement provides details of key stakeholder engagement undertaken by the Board during the year and how this helps the Board to factor potential impacts on stakeholders in the decision making process. Additional details of the company's key stakeholders and why they are important to us are set out below.

General

Ahlstrom-Munksjö Chirnside Limited and its board are determined to ensure good governance of the company. We are fortunate that the Ahlstrom-Munksjö Group has comprehensive and strict policies which enable its subsidiaries to ensure compliance and deliver robust governance of their activities. Our policy is to comply throughout the organisation with all applicable laws and regulations and to maintain an ethical workplace for our officers and employees as well as an ethical relationship with our customers, suppliers and other business partners.

Ahlstrom-Munksjö's Board of Directors has approved the Code of Conduct and the key compliance policies for Ahlstrom-Munksjö. In addition, the whole senior management team of Ahlstrom-Munksjö Chirnside has signed a personal commitment to ensure compliance with our code of conduct and this is prominently displayed on site. Our compliance approach is based on the following elements:

- Our Management's commitment and leadership to compliance
- Ahlstrom-Munksjö's Code of Conduct and other key compliance policies
- Compliance controls, monitoring, communication, education and training
- Whistleblowing channel
- Disciplinary actions where needed

In addition to the Code of Conduct, the company's key compliance policies include an Approval and Signing Policy which lays out the various levels of oversight and responsibility required to sign on behalf of the company, the Competition Compliance Policy and Manual, the Anti-Bribery Policy, the Trade Compliance Policy, the Data Protection Policy, the Risk Management Policy, the Treasury Policy and the Insider Rules.

Corporate governance underpins how we conduct ourselves as a Board, our culture, values, behaviours and how we do business. As a Board we are conscious of the impact that our business and decisions have on our direct stakeholders as well as our wider societal impact.

As part of the director induction process, directors are informed of their duties, including their statutory duties under s.172 of the Companies Act 2006. The directors are entitled to request from the Company all such information they may reasonably require in order to be able to perform their duties as directors, including professional advice from either the Company Secretary or from an independent advisor at the Company's expense. On-going training is provided to the directors, as required, to ensure that their knowledge remains up to date and they continue to be able to discharge their duties as directors and this training is regularly refreshed

Strategic report (continued)

SECTION 172(1) STATEMENT & STAKEHOLDER ENGAGEMENT (Continued)

Principal decisions

For the year ending 31 December 2019, the Board consider that the following are examples of principal decisions that it made in the period:

The board determined to continue work on our investment of about EUR 28 million to reinforce our market position in biodegradable and compostable tea bag, coffee and meat casing materials. This major investment project includes purchasing a secondhand paper making line to be dismantled and transferred to our manufacturing site in the UK. The machine is expected to be fully commissioned by Q1/2021

The table below sets out our key stakeholders and how we have engaged with them in the period, as well as demonstrating stakeholder consideration in the decision making process.

Stakeholders Their importance to us	The Board's approach to stakeholder engagement	Stakeholder consideration in the Board's decision making
Shareholders Our shareholders are vital to the future success of our business, providing funds which aid business growth and the generation of sustainable returns.	Ahlstrom-Munksjö Chirnside Limited is wholly owned by its parent company Ahlstrom-Munksjö Oyj and there are no minority shareholders. Engagement with our owner is continual via various business processes	The board of Ahlstrom-Munksjö Chirnside Limited are employees of the Ahlstrom-Munksjö group and therefore our business processes ensure that shareholders are considered in our decision making.
Customers Listening to our customers helps us to better understand their needs and provide suitable and reliable products and services.	Our customers are at the heart of our business and we make considerable effort to ensure we understand their needs via regular contact and analysis. We have extensive and multi-faceted engagement with our customers at different touch points across our business to ensure we are able to meet our customers' needs and understand our markets.	The board uses the market intelligence from its customers and various other sources to inform board decision making.
Suppliers Interaction with our suppliers and treating our suppliers fairly allows us to drive high standards and reduce risk in our supply chain whilst also benefitting from cost efficiencies and generating positive for the environment and wider society.	Our governance processes include many provisions regarding the interaction with suppliers. We expect all of our suppliers to abide by our dedicated Supplier Code of Conduct. We operate in partnership with key suppliers and ensure regular and meaningful contact with them in respect of our business together.	Decisions taken by the board are informed by our supplier discussions in order to ensure that our critical relationships are secured.

Strategic report (continued)

SECTION 172(1) STATEMENT & STAKEHOLDER ENGAGEMENT (Continued)

Principal decisions (Continued)

<p>Workforce</p> <p>Engaging with our people enables us to create an inclusive company culture and a positive working environment.</p>	<p>Our employees are our greatest asset. Engagement with our employees occurs via many different paths. In particular we have operated a Works council for more than 20 years to ensure good communication with the workforce. The Works Council has elected representative from across the business. A sub-group from the representatives are also members of Ahlstrom-Munksjö's European Works Council.</p> <p>We hold regular crew meetings on site and these are augmented by regular presentations by senior group and business staff meetings to the whole workforce. Other engagement activities include Plant Safety Walks by senior staff, Scheduled Employee training days, regular employee surveys and the provision of question boxes as well as the provision of a confidential 'whistleblowing' help line.</p>	<p>Feedback from our workforce garnered by the pathways listed to the right serve to inform the decision making process of the board.</p>
<p>Community/wider society</p> <p>Contributing positively to wider society enables us to create stronger communities and have a positive environmental impact.</p>	<p>Ahlstrom-Munksjö Chirnside Limited recognises that it has a significant role to play within our community and wider society. As a large local employer we understand that our operations have the potential for significant impact within our community and we take our responsibilities seriously in this regard. We regularly engage with the wider community where many of our employees are drawn from. Examples of this are support to local charitable concerns, annual Family Fun Days on site where visitors can learn about our operations and tour our facilities, regular school visits to assist in education at both primary & secondary school levels and attendance at larger educational events hosted in our region. We regularly employ apprentices to develop young people's skills. Our sites have been Zero Waste to Landfill since 2013.</p>	<p>The impact of our activities within our local community is always considered in decision making. Many of our products are designed to have a positive environmental impact and we consider that we lead the industry in terms of the sustainable products we produce and market.</p>

Approved by the board on 17th July 2020 and signed on its behalf by:



S Nixon

Director

5 Fleet Place
London
England
EC4M 7RD

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019 (referred to as "2019" or "year" throughout the financial statements).

Research and development

The Company continues to invest in research and development of new product ranges to promote new and replacement business. New markets have been developed in line with the Company's strategy; key customer relationships are monitored on a regular basis.

Financial instruments

The company held no foreign currency forward contracts and foreign currency swaps in 2019. Details of the company's financial instruments are given in notes 14 and 15 to the financial statements.

Going Concern

The directors have considered the company's strategy and, based on the responses to enquiries, the directors, at the time of approving the financial statements, have determined there is reasonable expectation that the company has adequate resources to continue operating for the foreseeable future.

Future developments

The Company will continue to manufacture and sell speciality paper and non-woven materials, and the directors expect to experience improved financial results in the future.

Dividends

The directors do not recommend payment of a dividend (2018: £nil).

Directors

The directors of the Company who were in office during the year and up to the date of signing of the financial statements were:

S Nixon

O V Hoek (resigned 31 December 2019)

M Westerkamp (appointed 1 January 2020)

Political contributions

The Company made no political donations or incurred any political expenditure during the current or prior years.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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.

Approved by the board on 17th July 2020 and signed on its behalf by:



S Nixon
Director

5 Fleet Place
London
England
EC4M 7RD

Statement of directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the 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 *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 is 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 as are 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 Ahlstrom-Munksjö Chirnside Limited

Opinion

We have audited the financial statements of Ahlstrom-Munksjö Chirnside Limited ("the company") for the year ended 31 December 2019, which comprise the Profit and loss Account and Other Comprehensive Income, the Balance Sheet, the 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 loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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, and the provisions available for small entities, in the circumstances set out in note 1 to the financial statements. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared forecasts for the company for the period for at least twelve months from the date of signing these accounts. The forecasts show that the company can operate within its available funds for the foreseeable future. On the basis of their assessment, the directors have a reasonable expectation that the company will continue in operational existing for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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.

Directors' report

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

Our responsibility is to read 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 directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Ahlstrom-Munksjo Chirnside Limited (continued)

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 these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, 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.

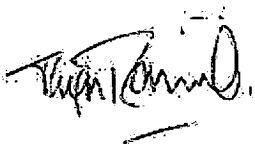
Auditor's responsibilities

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.



Hugh Harvie (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Date: 17 July 2020

**Profit and Loss Account and Comprehensive Income
for the year ended 31 December 2019**

	Note	2019 £'000	2018 £'000
Turnover	3	58,129	54,527
Cost of sales		(52,628)	(48,269)
Gross profit		5,501	6,258
Distribution costs		(921)	(1,251)
Administrative expenses		(8,625)	(9,700)
Research and development		-	-
Other operating income	4	1,957	1,061
Operating loss		(2,088)	(3,632)
Other interest receivable and similar income	8	39	298
Interest payable and similar expenses	9	(1,390)	(1,080)
Loss before taxation		(3,439)	(4,414)
Taxation	10	-	-
Loss for the financial year		(3,439)	(4,414)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	17	(2,476)	(1,426)
Income tax on items that will not be classified to profit or loss	12	-	-
Other comprehensive loss for the year, net of income tax		(2,476)	(1,426)
Total comprehensive loss for the year		(5,915)	(5,840)

The notes on pages 13 to 34 form an integral part of these financial statements.

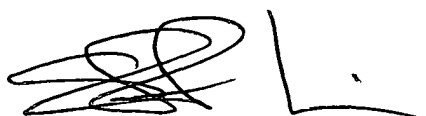
Balance Sheet

as at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible fixed assets	11	19,244	15,674
Current assets			
Stocks	13	11,598	12,014
Debtors	14	8,108	10,466
Cash at bank and in hand		14,446	18,419
		<u>34,152</u>	<u>40,899</u>
Creditors: amounts falling due within one year	15	<u>(9,267)</u>	<u>(8,573)</u>
Net current assets		<u>24,885</u>	<u>32,326</u>
Total assets		<u>44,129</u>	<u>48,000</u>
Creditors: amounts falling due after more than one year	16	(18,961)	(16,929)
Provisions for liabilities			
Pension liability	17	(2,475)	(2,463)
		<u>22,693</u>	<u>28,608</u>
Net assets		<u>22,693</u>	<u>28,608</u>
Capital and reserves			
Called up share capital	18	92,000	92,000
Profit and loss account		(69,307)	(63,392)
Shareholders' funds		<u>22,693</u>	<u>28,608</u>

The notes on pages 13 to 34 form an integral part of these financial statements.

These financial statements on pages 10 to 34 were approved and authorised for issue by the board of directors on 17th July 2020 and signed on its behalf by:



Stuart Nixon

Director

Company registered number: 04033572

Statement of Changes in Equity

	Called up share capital	Profit and loss account	Total Shareholder's funds
	£'000	£'000	£'000
Balance at 1 January 2018	62,000	(61,113)	887
Total comprehensive income for the year			
Loss for the financial year	-	(4,414)	(4,414)
Other comprehensive loss	-	(1,426)	(1,426)
Total comprehensive loss for the year	-	(5,840)	(5,840)
Transactions with owners, recorded directly in equity			
Issue of shares	30,000	-	30,000
Capital contribution		3,561	3,561
Total contributions by and distributions to owners	30,000	3,561	33,561
Balance at 31 December 2018	92,000	(63,392)	28,608

	Called up share capital	Profit and loss account	Total Shareholder's funds
	£'000	£'000	£'000
Balance at 1 January 2019	92,000	(63,392)	28,608
Total comprehensive income for the year			
Loss for the financial year	-	(3,439)	(3,439)
Other comprehensive loss	-	(2,476)	(2,476)
Total comprehensive loss for the year		(5,915)	(5,915)
Balance at 31 December 2019	92,000	(69,307)	22,693

The notes on pages 13 to 34 form an integral part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

Ahlstrom-Munksjö Chirnside Limited ("the Company") is a private company incorporated, domiciled and registered in the UK. The registered number of the company is 04033572 and its registered office address is 5 Fleet Place, London, England, EC4M 7RD.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") except as noted below.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The presentation currency of the financial statements is sterling. All amounts have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Ahlstrom-Munksjö Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of Ahlstrom Corporation are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Ahlstrom-Munksjö Corporation, PO Box 329, 00101 Helsinki, Finland.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transaction with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- The requirements to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

As the consolidated financial statements of Ahlstrom Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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.

Measurement convention

The financial statements are prepared on the historical cost basis.

Changes in accounting policies in 2019

The Company has adopted the following IFRSs in these financial statements:

IFRS 16: Leases (See note 19). This has been adopted using the modified retrospective method and as a result the comparatives have not been restated and are reported under IAS 17.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Going concern

Notwithstanding net current assets of £24.885m as at 31 December 2019 and a loss for the year then ended of £3.439m, 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 at least 12 months from the date of approval of these financial statements which take into account reasonably possible downsides scenarios which include the potential business impacts of COVID-19. The company continually monitors current trade activity and has reassessed cash flow forecasts to actual trading results throughout the lock-down period. The directors have also performed risk assessments over employees, customers and suppliers and expect to continue to trade at full capacity within the forecast period. These forecasts indicate that the company will have sufficient funds, through funding from its ultimate parent company, Ahlstrom-Munksjö Corporation, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Ahlstrom-Munksjö Corporation providing additional financial support during that period. Ahlstrom-Munksjö Corporation has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Financial instruments

(i) 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, for an item not at fair value through profit or loss (FVTPL), 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.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

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

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Financial instruments (*continued*)

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.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

(b) *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.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

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.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Financial instruments (*continued*)

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

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.

(iii) *Derivative financial instruments and hedging*

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

(iv) *Impairment*

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets 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 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).

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

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Financial instruments (*continued*)

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.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Land and buildings	5-40 years
Plant and equipment	3-20 years

Depreciation is only charged on assets under construction once they are brought into use.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the statement of comprehensive income over the estimated useful economic lives of the assets to which they relate.

Income based government grants are credited to the statement of comprehensive income in the period to which they relate.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined using the weighted average purchase price. In the case of work in progress and finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a saleable condition. Provision is made for obsolescent, slow moving and defective stocks.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*) *Impairment excluding stocks and deferred tax asset*

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution schemes

The defined contribution scheme is a post-employment benefit scheme 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 schemes are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

Defined benefit schemes

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, being invested in managed pension funds. This scheme was closed on 3 July 2014.

The defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The Company's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme 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.

Remeasurements arising from defined benefit schemes comprise actuarial gains and losses, the return on scheme assets (greater or less than discount rate) and the change in irrecoverable surplus, other than interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the statement of comprehensive income.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Employee benefits (Continued)

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.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Turnover

Turnover, which excludes returns, value added tax and trade discounts, represents the invoiced value of sales made during the year, plus the value of consignment stocks used by customers, but not yet invoiced.

Expenses

Research and development expenditure

Expenditure on research activities is recognised in the statement of comprehensive income as an expense as incurred.

Operating lease payments (policy applicable before 1 January 2019)

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance expense on shares classified as liabilities 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 and the unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income includes interest receivable on funds invested.

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

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income 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.

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 [and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located], 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.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Leases (policy applicable from 1 January 2019) (Continued)

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
- 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.

2 Critical accounting judgements

The Company makes estimates and judgements concerning the future and the resulting estimates may, by definition, vary from the related actual results. The directors considered the critical accounting estimates and judgements used in the financial statements and concluded that the main areas are as follows:

Employee benefits

The financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Company uses previous experience and impartial actuarial advice to select the values of critical estimates. The estimates, and the effect of variances in key estimates, are disclosed in note 16.

Notes to the Financial Statements *(continued)*

3 Turnover

All turnover and loss before taxation relate to the Company's principal activity.

An analysis of turnover by geographical market is not given as, in the opinion of the directors; this would be seriously prejudicial to the interests of the Company.

4 Other operating income

	2019 £'000	2018 £'000
Government grants	1,691	1,022
Other income	266	39
	<u>1,957</u>	<u>1,061</u>

Government grants relate to the Government's exemption and compensation scheme for Energy Intensive industries.

5 Expenses and auditors' remuneration

Included in operating loss are the following:

	2019 £'000	2018 £'000
Depreciation of property, plant and equipment		
- owned assets	998	849
- leased assets	149	-
Operating lease payments	-	330
	<u>-</u>	<u>330</u>

Auditor's remuneration:

	2019 £'000	2018 £'000
Audit of these financial statements	54	39
	<u>54</u>	<u>39</u>

Notes to the Financial Statements *(continued)*

6 Staff numbers and costs

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2019 Number	2018 Number
Production	165	160
Selling and distribution	10	6
Administration	9	7
	<u>184</u>	<u>173</u>

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 £'000
Wages and salaries	7,057	6,626
Social security costs	791	730
Other pension costs	616	541
	<u>8,464</u>	<u>7,897</u>

7 Directors' remuneration

	2019 £'000	2018 £'000
Directors' remuneration	133	96
Company contributions to money purchase pension schemes	10	7
	<u>143</u>	<u>103</u>

Retirement benefits are accruing to 1 (2018:1) director under money purchase pension schemes.

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £133,360 (2018: £96,169), and Company pension contributions of £9,540 (2018: £7,255) were made to a money purchase scheme on his behalf. He is a member of a defined benefit scheme, under which his accrued pension at year end was £4,375 (2018: £12,228), and his accrued lump sum was £0 (2018:£0).

Notes to the Financial Statements (*continued*)

8 Other interest receivable and similar income

	2019 £'000	2018 £'000
Other interest	39	13
Net foreign exchange gain	-	285
	<u>39</u>	<u>298</u>

9 Interest payable and similar expenses

	2019 £'000	2018 £'000
Amounts owed to group undertakings	703	1,048
Net interest on net defined benefit pension liability	36	32
Net foreign exchange loss	562	-
Interest expense on lease liabilities	89	-
	<u>1,390</u>	<u>1,080</u>

10 Taxation

Recognised in the profit and loss account

	2019 £'000	2018 £'000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Total current tax	<u>-</u>	<u>-</u>
<i>Deferred tax (see note 12)</i>		
Origination and reversal of temporary differences	-	-
Total Deferred Tax	<u>-</u>	<u>-</u>
Tax on loss on ordinary activities	-	-
Tax recognised in other comprehensive income	-	-
Total Tax	<u>-</u>	<u>-</u>

Notes to the Financial Statements (*continued*)

10 Taxation (*continued*)

Reconciliation of effective tax rate

	2019 £'000	2018 £'000
Loss for the year	(3,439)	(4,414)
Total tax expenses	-	-
Loss excluding taxation	(3,439)	(4,414)
Tax using the UK corporation tax rate of 19% (2018: 19%)	(653)	(839)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(180)	(201)
Tax losses carried forward and not recognised	833	1,040
	-	-
	<u><u> </u></u>	<u><u> </u></u>

Tax losses are deemed recoverable against future profits. Total unrecognised tax losses in the group are £45,105,163 (2018: £40,719,533). A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget however, 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.

Notes to the Financial Statements *(continued)*

11 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Cost				
At 1 January 2019	9,506	54,184	10,242	73,932
Recognition of right-of use assets on initial application of IFRS16	1,103	565	-	1,668
Adjusted balance at 1 st January 2019	10,609	54,749	10,242	75,600
Additions	35	249	2,616	2,900
Transfers	74	803	(877)	-
At 31 December 2019	10,718	55,801	11,981	78,500
Accumulated depreciation				
At 1 January 2019	7,617	50,641	-	58,258
Charge for the year	165	833	-	998
At 31 December 2019	7,782	51,474	-	59,256
Net book value				
At 31 December 2019	2,936	4,327	11,981	19,244
At 31 December 2018	1,889	3,543	10,242	15,674

Right-of-use assets

At 31 December 2019, property, plant and equipment includes right-of-use assets as follows:

	Land and buildings £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Right-of-use asset				
At 31 December 2019	1,083	561	-	1,644

Notes to the Financial Statements *(continued)*

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Tangible fixed assets	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-
Tax value of loss carry-forwards	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Tax assets / (liabilities)	-	-	-	-	-	-
Net of tax (liabilities) / assets	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net tax assets / (liabilities)	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The deferred tax assets in respect of employee benefits and tax losses carried forwards are not recognised, as the Directors consider that it is not probable that they will be recovered through future taxable profits.

Notes to the Financial Statements (*continued*)

13 Stocks

	2019 £'000	2018 £'000
Raw materials and consumables	7,107	6,723
Work in progress	705	978
Finished goods	3,786	4,313
	<u>11,598</u>	<u>12,014</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £33.1 million (2018: £29.3 million). The write-down of stocks to net realisable value amounted to £64,441 (2018: £70,660). There was no reversal of write-downs in the current or prior years.

14 Debtors

	2019 £'000	2018 £'000
<i>Due within one year:</i>		
Trade debtors	6,306	8,115
Amounts owed by group undertakings	135	370
Other debtors	1,626	1,515
Prepayments and accrued income	41	466
	<u>8,108</u>	<u>10,466</u>

Amounts owed by group undertakings are unsecured, payable on demand and have no interest payable on them.

As at 31 December 2019 a credit loss provision of £486,213 (2018: £ 468,910) is included within trade debtors.

15 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Lease liabilities	140	-
Trade creditors	8,183	7,755
Other taxation and social security	502	482
Accruals and deferred income	156	185
Other creditors	286	151
	<u>9,267</u>	<u>8,573</u>

Notes to the Financial Statements (*continued*)

16 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Amounts owed to group undertakings	17,606	16,929
Lease liabilities	1,355	-
	<u>18,961</u>	<u>16,929</u>

Lease liabilities

Lease liabilities as at 31 December 2019, calculated in accordance with IFRS 16, are repayable as follows:-

	2019 Minimum lease payments £'000	2019 interest £'000	2019 Principal £'000
Within one year (note 15)	231	91	140
Between 1 and 2 years	207	82	125
Between 2 and 5 years	358	214	144
More than 5 years	3,530	2,444	1,086
	<u>4,326</u>	<u>2,831</u>	<u>1,495</u>

Amounts owed to group undertakings

Amounts owed to group undertakings include a £20 million loan that was entered into in 2018 with the parent company. The loan is being reflected in the accounts using a notional interest rate of 4% which reflects market values. The loan is repayable on 3 April 2023.

Notes to the Financial Statements (continued)

17 Employee benefits

The information disclosed below is in respect of the whole of the schemes for which the Company is either the sponsoring employer or has been allocated a share of cost under agreed group policy throughout the years shown.

	2019 £'000	2018 £'000
Defined benefit asset	(61,159)	(54,935)
Effect of net asset ceiling	7,189	4,515
Total defined benefit asset	(53,970)	(50,420)
Total defined benefit liability	56,445	52,883
Net liability for defined benefit obligations	2,475	2,463

Defined benefit scheme

The Company participates in The Ahlstrom Pension Scheme which is now closed to further contributions. The latest actuarial valuation as at 31 December 2019 was carried out on 9 December 2019, by Harvey and Clamp, independent qualified actuaries. The Company expects to pay £2.5 million in contributions to its defined benefit plans in 2020.

Movements in net defined benefit liability/asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Balance at 1 January	52,883	64,834	(50,420)	(62,366)	2,463	2,468
Included in profit or loss						
Past service cost	-	1,037	-	-	-	1,037
Interest cost/(income)	1,564	1,666	(1,528)	(1,634)	36	32
	1,564	2,703	(1,528)	(1,634)	36	1,069
Included in OCI						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from						
- Changes in demographic assumptions	(885)	(1,470)	-	-	(885)	(1,470)
- Change in financial assumptions	5,998	(2,997)	-	-	5,998	(2,997)
- Experience adjustment	(33)	22	-	-	(33)	22
Return on scheme assets (less)/greater than discount rate	-	-	(5,143)	3,457	(5,143)	3,457
Change in irrecoverable surplus other than interest	-	-	2,539	2,414	2,539	2,414
	5,080	(4,445)	(2,604)	5,871	2,476	1,426
Other						
Contributions paid by the employer	-	-	(2,500)	(2,500)	(2,500)	(2,500)
Disbursements paid from scheme assets	(3,082)	(10,209)	3,082	10,209	-	-
Balance at 31 December	56,445	52,883	(53,970)	(50,420)	2,475	2,463

Notes to the Financial Statements (*continued*)

17 Employee benefits (*continued*)

Scheme assets	2019	2018
	£'000	£'000
Gilts	26,781	24,402
Bonds	12,340	10,557
Cash and cash equivalents	2,703	1,134
Insured Pensioner Asset	19,335	18,842
Total	61,159	54,935

Interest cost/(income) recognised in profit or loss	2019	2018
	£'000	£'000
Interest (income)	(99)	(85)
Interest cost on irrecoverable surplus	135	53
Interest cost/(Income) (note 9)	36	(32)

Scheme assets do not include any of Ahlstrom-Munksjö Chirnside Limited's own financial instruments, or any property occupied by Ahlstrom-Munksjö Chirnside Limited.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates on return experiences in the respective markets.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

	2019	2018
Discount rate at 31 December	2.0%	3.0%
Expected rate of return on assets	2.0%	3.0%
Price inflation - RPI	3.3%	3.7%
Price inflation - CPI	2.8%	3.2%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 21.9 years
- Future retiree upon reaching 65: 23.1 years.

Notes to the Financial Statements (*continued*)

17 Employee benefits (*continued*)

Sensitivity analysis

The calculation of the defined benefit scheme is sensitive to the assumptions set out on the previous page. The below summaries how the impact on the defined benefit obligation at the end of the reporting period would have increased/decreased by as a result of a change in the discount rate by 0.5 percent.

Discount rate

The effect of reducing the discount rate by 0.5% per annum to 1.50% would be to increase the net defined benefit liability by £6,000 to £2,481,000.

The effect of increasing the discount rate by 0.5% per annum to 2.50% would be to decrease the net defined benefit liability by £6,000 to £2,469,000.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2019 and are applied to adjust the defined benefit obligation at the end of the reporting year for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

18 Called up share capital

Called up share capital

In thousands of shares

	Ordinary shares	
	2019	2018
On issue at 1 January	92,000	62,000
Issued shares	-	30,000
On issue at 31 December – fully paid	<u>92,000</u>	<u>92,000</u>

Allotted, called up and fully paid

	2019	2018
	£'000	£'000
92 million (2018: 92 million) Ordinary shares of £1 each	<u>92,000</u>	<u>92,000</u>

Notes to the Financial Statements (*continued*)

19 Leases

Leases as a lessee (IFRS 16)

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):

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Balance at 1 January 2019	1,103	565	1,668
Additions to right-of-use assets	-	125	125
Depreciation charge for the year	20	129	149
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	1,083	561	1,644
	<hr/>	<hr/>	<hr/>

Amounts recognised in profit or loss

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

Leases under IFRS 16

	2019 £'000
Interest expense on lease liabilities	89
Depreciation of right-of-use assets	149
	<hr/>
	238
	<hr/>

Operating leases under IAS 17

	2018 £'000
Land and Buildings	3,913
Plant and machinery – including motor vehicles	407
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	4,320
	<hr/>

Notes to the Financial Statements (*continued*)

19 Leases (*continued*)

Operating lease commitments – IAS 17

As at 31 December 2018 the company had commitments under operating leases as follows:

Land and Buildings	2018
<i>Non-cancellable operating lease rentals are payable as follows:</i>	£'000
Within one year	73
Within two to five years	292
After five years	3,548
	<hr/>
	3,913
	<hr/>
Other	2018
<i>Non-cancellable operating lease rentals are payable as follows:</i>	£'000
Within one year	136
Within two to five years	271
After five years	-
	<hr/>
	407
	<hr/>

20 Related parties

The Company has applied the exemption available under FRS 101 in respect of the requirement to disclose related party transactions with other wholly owned group members.

21 Ultimate parent company and parent undertaking of largest group of which the company is a member

The Company is a subsidiary undertaking of Ahlstrom-Munksjö Corporation which is incorporated in Finland. The ultimate controlling party is Ahlstrom-Munksjö Corporation.

The smallest and largest group in which the results of the Company are consolidated is that headed by Ahlstrom-Munksjö Corporation. The consolidated financial statements of this company are available to the public and may be obtained from Ahlstrom-Munksjö Corporation, PO Box 329, 00101 Helsinki, Finland.

22 Post Balance Sheet Events

There have been no material events after the Balance sheet date requiring disclosure in, or adjustment to, the financial statements. The outbreak of the novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020, has impacted global financial markets and, as such, market activity is being impacted in many sectors. The Company has assessed the plausible impacts to its future financial forecasts and budgets and, given the nature of its industry sector, is currently not anticipating any significant impacts to its ability to meet its business objectives or to experience a significant operating cash flow impact. Discussions are on-going with key suppliers and customers and the directors are monitoring the situation closely.