

UPM-Kymmene (UK) Limited
Directors' report and financial statements
for the year ended 31 December 2011

Registered Number SC102969

FRIDAY



S1A5IIGI

SCT 01/06/2012 #359
COMPANIES HOUSE

SCT 26/05/2012 #575
COMPANIES HOUSE

UPM-Kymmene (UK) Limited

Directors' report and financial statements for the year ended 31 December 2011

Contents

	Page
Directors and advisers	1
Directors' report for the year ended 31 December 2011	2
Independent auditors' report to the members of UPM-Kymmene (UK) Limited	6
Profit and loss account for the year ended 31 December 2011	8
Statement of total recognised gains and losses for the year ended 31 December 2011	9
Balance sheet as at 31 December 2011	10
Accounting policies	11
Notes to the financial statements for the year ended 31 December 2011	14

UPM-Kymmene (UK) Limited

Directors and advisers for the year ended 31 December 2011

Directors

W G Oldham (Resigned 31 December 2011)
D G Chalmers
M Salmelin

Company Secretary

D G Chalmers

Ultimate Holding Company

UPM-Kymmene Corporation
Etelaesplanadi 2
P.O. Box 380
FI-00101 Helsinki
Finland

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

Principal bankers

Nordea Bank Finland plc
London Branch
8th Floor
City Place House
55 Basinghall Street
London
EC2V 5NB

Registered office

Meadowhead Road
Irvine
KA11 5AT

Registered number

SC102969

UPM-Kymmene (UK) Limited

Directors' report for the year ended 31 December 2011

The directors present their annual report and audited financial statements for the year ended 31 December 2011.

Business review and principal activities

The Company, registered number SC102969, is a wholly owned subsidiary of UPM-Kymmene Corporation. The principal activity of the Company is to manufacture, import, sell and distribute various paper and wood products. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

On 1 January 2012 the trade, assets and liabilities of a sister company UPM Raflatac Limited were transferred into UPM-Kymmene (UK) Limited, at fair value equal to the book value. No profit or loss was therefore generated as a result of this transaction.

As shown in the Company's profit and loss account on page 7, turnover increased to £961,129,000, an increase of 7% from 2010. Operating profit has increased from £20,056,000 to £41,932,000. This increase is largely due to increases in both newsprint and magazine sales prices. Both mills, Caledonian and Shotton, continue to benefit from producing and using energy from renewable sources. All business units continue to focus on reducing their cost base in order to improve profitability.

In 2011 the demand for paper products in the UK was slightly lower than the previous year. Although magazine and newsprint sales prices were higher than 2010, raw material prices were also higher, thus impacting margins. Plywood demand in Europe increased in 2011, but still remains below pre-recession demand levels. Timber demand in Europe continued to be weak in 2011 due to economic uncertainties and low building activity.

The Company invested £17,000,000 in a Materials Recovery & Recycling Facility at Shotton mill. This facility became operational in April of 2011 and enables Shotton to sort dry recyclables. The facility's aim is to provide 20% of the mills recovered paper requirement, the main raw material for our newspaper production.

Exceptional items during the year related to a credit on the pension scheme. The pension credits arose as a consequence of the announcement by the UK Government that the inflation index to be used to derive statutory pension increases would be changed from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The credits arising the current year have been accounted for following the guidance set out in UITF48 'Accounting implications of the replacement of RPI with CPI for retirement benefits'. The past service credits have been accounted for as a change in benefits and recognised in the income statement. The net gain of this consequence plus completion of an age equalisation exercise resulted in a gain of £5,842,000 in the current year.

The directors do not propose the payment of a dividend (2010: nil). The retained profit has been transferred to reserves.

The balance sheet on page 10 of the financial statements shows the Company's financial position at the year end is strong and consistent to prior year.

Key performance indicators

UPM manages its worldwide operations on a business group basis. For this reason, the directors do not believe that further key performance indicators would be necessary or appropriate for an understanding of the development, performance or position of the Company. The performance of the individual business groups are discussed in detail in UPM's Annual Report.

UPM-Kymmene (UK) Limited

Principal risks and uncertainties

Competitive pressure in the UK and overseas is a continuing risk to the Company. The Company operates in highly competitive markets where price and quality are critical. Energy and raw material pricing is a continuous risk. The Company is exposed to currency exchange rate risks by way of both its sales and purchases in various overseas markets. The management of such risks are undertaken by the Treasury function at a Group level by the ultimate parent company. The Company is financed by the parent and has no third party debt.

Future outlook

In UPM's businesses market conditions are estimated to have stabilised. The demand and price outlook for UPM's products is broadly stable for early 2012 compared with late 2011, taking into account seasonal variations. The Company will continue to seek cost savings through internal efficiencies and synergy benefits.

Directors

The directors of the Company at 31 December 2011 and who served during the year were as follows:

W G Oldham (Resigned 31 December 2011)
D G Chalmers
M Salmelin

Environmental policy

The Company has an environmental policy which states that UPM-Kymmene (UK) Limited will meet all relevant legislative and regulatory environmental requirements, codes of practice and behave in an environmentally responsible manner. The Company is committed to improving its environmental performance year on year, and has ISO 14001 certification.

The Company recognises the importance of its environmental responsibilities and monitors closely its impact on the environment. The Shotton Mill operates with 100% recycled fibre and the renewable energy power plants at both Caledonian and Shotton Mills helps reduce the Company's carbon emissions and reliance on carbon based fuels. The Company also works closely with both the UK environmental agency and SEPA to ensure that legislation and best practice in the safe disposal of any manufacturing waste is adhered to.

Employees

The Company is committed to involve all employees in the performance and development of the Company. Regular communications are available to all employees to position and share the long term strategic direction and the various financial and economic factors affecting business performance.

A high priority is placed on providing appropriate levels of training and development to enable employees to meet individual and business objectives. A European Works Council continues to operate, involving representatives from all subsidiary companies of our ultimate parent Company. The Company recognises the importance of promoting and maintaining good communications with its employees.

Disabled persons

It is the Company's policy to give full consideration to suitable applications for employment by disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be trained for other positions in the Company.

UPM-Kymmene (UK) Limited

Health and safety

The Company is committed to a culture which fully encompasses health and safety. The company has a well established occupational health service and a voluntary health screening initiative which continues to promote the joint benefits of good health among employees.

Creditor payment policy

The Company fully supports the Department of Trade and Industries Better Payment Practice Code. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Third party trade creditors at the year end represented 35 days (2010: 29 days) of purchases.

Charitable and political donations

During the year the Company made donations of £9,057 (2010: £16,302) to charitable organisations and local organisations connected with the Company's business and place in the community. There were no political donations made during the year.

Statement of directors' responsibilities

The directors are responsible for preparing 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 the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

UPM-Kymmene (UK) Limited

Auditors and disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company was adopted at the parent Company's Annual General Meeting held on 30th March 2012.

By order of the Board



D G Chalmers

Director and Company Secretary

11 May 2012

UPM-Kymmene (UK) Limited

Independent Auditors' Report to the Members of UPM-Kymmene (UK) Limited

We have audited the financial statements of UPM Kymmene (UK) Limited for the year ended 31 December 2011 which comprise Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

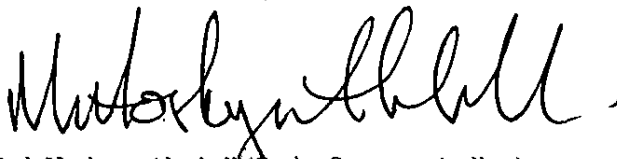
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

UPM-Kymmene (UK) Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Mark Hoskyns-Abraham (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
16 May 2012

UPM-Kymmene (UK) Limited

Profit and loss account for the year ended 31 December 2011

	Note	2011	2010
		£'000	£'000
Turnover	1	961,129	896,584
Cost of sales		(878,775)	(834,625)
Gross profit		82,354	61,959
Distribution and selling costs		(27,494)	(26,685)
Administrative costs		(22,871)	(21,359)
Exceptional income	5, 22	5,842	-
Other operating income		4,101	6,141
Operating profit	2	41,932	20,056
Interest receivable and similar income	6	423	994
Interest payable and similar charges	7	(67)	(233)
Other finance income / (expense)	22	540	(979)
Profit on ordinary activities before taxation		42,828	19,838
Tax on profit on ordinary activities	8	(9,739)	(5,311)
Profit for the financial year	19	33,089	14,527

All operations are continuing.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

UPM-Kymmene (UK) Limited

Statement of total recognised gains and losses for the year ended 31 December 2011

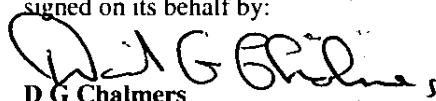
	Note	2011	2010
		£'000	£'000
Profit for the financial year		33,089	14,527
Actuarial (loss) / gain on pension scheme	22	(23,877)	10,591
Movement on deferred tax relating to pension liability	15	5,969	(2,965)
Movement on deferred tax relating to rate change	15	(635)	(318)
Total recognised gain for the year and since last annual report		14,546	21,835

UPM-Kymmene (UK) Limited

Balance sheet as at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets	9	1,644	1,833
Tangible assets	10	250,976	268,671
Investments	11	265	265
		252,885	270,769
Current assets			
Stocks	12	42,382	32,709
Debtors	13	181,315	152,741
Cash on deposit and at bank		2,019	336
		225,716	185,786
Creditors: amounts falling due within one year	14	(151,148)	(150,743)
Net current assets		74,568	35,043
Total assets less current liabilities		327,453	305,812
Provisions for liabilities and charges	15	(23,815)	(27,957)
Deferred income	16	(17,584)	(18,057)
Net assets excluding pension liability		286,054	259,798
Pension liability	22	(34,908)	(23,198)
Net assets including pension liability		251,146	236,600
Capital and reserves			
Called up share capital	17	160,000	160,000
Profit and loss account	18	91,146	76,600
Total shareholders' funds	19	251,146	236,600

The financial statements on pages 8 to 29 were approved by the board of directors on 11 May 2012 and were signed on its behalf by:


D G Chalmers
 Director and Company Secretary

UPM-Kymmene (UK) Limited

Accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 2006. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Cash Flow statement

The Company has taken advantage of the exemption available to subsidiary undertakings under FRS 1 (Revised) from preparing a cash flow statement. A cash flow statement is included in the financial statements of the ultimate holding Company which are publicly available.

Turnover

Turnover represents the invoiced value, excluding value added tax, of goods and services which have been delivered during the year.

Intangible assets - Emission Trading Scheme

Allowances received from the UK government, free of charge, are recognised as intangible assets based on the market value at the date of initial recognition. Allowances are not amortised.

Fixed assets and depreciation

The cost of tangible fixed assets is their purchase or construction cost, together with any incidental costs of acquisition.

Depreciation is provided from the point that assets are brought into use, to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land and buildings:

Heritable land	- not depreciated
Heritable industrial buildings	- 40 years
Residential property	- 50 years
Road areas	- 20 years
Leasehold land and buildings	- 15 to 40 years, being the shorter of estimated useful life and lease term

Plant and machinery:

Leased plant and machinery	- 10 to 20 years, being the shorter of estimated useful life and lease term
Capital spare parts	- 3 to 10 years
Other plant and machinery	- 10 to 20 years

Fixtures, fittings and motor vehicles:

Fixtures and fittings	- 5 years
Motor vehicles	- 5 years
Locomotive	- 20 years

Fixed asset investments

Fixed asset investments are stated at cost less provision for permanent diminution in value.

UPM-Kymmene (UK) Limited

Finance and operating leases

Where a lease is entered into which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

Operating leases and rentals are charged to the profit and loss account as incurred.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost of finished product stocks and work in progress comprises the cost of raw material, utilities, carriage and a proportion of overheads based on estimated normal production levels. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Capital spare parts are capitalised as fixed assets and amortised over a period of between 3 and 10 years.

Other engineering spare parts are classified as stock and are amortised by equal instalments over 5 years. These parts are charged to the profit and loss account as used.

Grants

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the related asset's useful life. Other grants are credited to the profit and loss account when received.

Taxation

Current and deferred taxation is based on the profits for the year including all taxation liabilities accruing to the date of the financial statements.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

UPM-Kymmene (UK) Limited

Pension costs

The Company participates in a UK group pension scheme. This is a hybrid scheme with defined benefit sections all of which are now closed to future accrual and a defined contribution section for all active members. Contributions to the defined benefit scheme are determined in accordance with the recommendations of an independent actuary and as agreed with the company. All contributions are charged to the profit and loss account as incurred.

Provisions:

Emission allowances

Emission obligations are recognised in provisions when the allowances have been utilised. The liability is expected to be settled at the end of the period covered by the allowances.

Restructuring

Restructuring provisions are recognised in the period in which the Company becomes legally or constructively committed to payment.

Related party transactions

The Company has taken advantage of the exemption available under FRS 8 "Related Party Disclosures" not to disclose transactions with group companies, as it is a wholly owned subsidiary undertaking.

Exceptional items

Where an item is exceptional, either by virtue of its size or unusual nature, it is disclosed separately in the profit and loss account in order to provide a full understanding of the underlying performance of the company.

UPM-Kymmene (UK) Limited

Notes to the financial statements for the year ended 31 December 2011

1 Turnover

SSAP 25, Segmental Reporting, has been complied with in the disclosure below.

The geographical distribution of turnover by destination was as follows:

	2011	2010
	£'000	£'000
United Kingdom	867,174	803,929
Rest of Europe	14,155	24,988
North America & Other	79,800	67,667
	961,129	896,584
Sales to third parties	836,560	771,497
Sales through group companies	124,569	125,087
	961,129	896,584

2 Operating profit

	2011	2010
	£'000	£'000
Operating profit is stated after charging:		
Auditors' remuneration		
- audit fees payable to the company's auditor	49	67
- fees payable to the auditor for other services:		
- other services relating to taxation	42	36
- services relating to recruitment and remuneration	2	8
- all other services	10	11

UPM-Kymmene (UK) Limited

2 Operating profit (continued)

	2011	2010
	£'000	£'000
Depreciation of owned tangible fixed assets	26,366	26,262
Depreciation of tangible fixed assets held under finance leases	7	7
Profit on disposal of tangible fixed assets	(10)	(198)
Research and development	19	146
Operating leases		
- amounts in respect of the hire of motor vehicles	215	241
- other operating leases	177	407

3 Directors' emoluments

	2011	2010
	£'000	£'000
Aggregate emoluments	337	341
Aggregate pension contributions	55	44
	392	385

Retirement benefits accrued in the year to two directors (2010: two) under a defined contribution scheme. Deferred retirement benefits have accrued to one director (2010: one) under a closed defined benefit scheme.

One director (2010: one) exercised share options in the year and no directors received share options (2010: two) in respect of their qualifying services under incentive schemes.

Highest paid director

	2011	2010
	£'000	£'000
Emoluments of the highest paid director were as follows:		
Aggregate emoluments	194	205
Pension contributions	28	25
	222	230

The highest paid director did not exercise share options in the ultimate parent company during the year nor did they receive share options under an incentive scheme.

UPM-Kymmene (UK) Limited

4 Staff costs (including directors' remuneration)

	2011	2010
	£'000	£'000
Salaries	33,429	33,925
Social security costs	3,840	3,604
Other pension costs (note 22)	4,593	4,074
	41,862	41,603

The average monthly number of persons (including directors) employed by the Company during the year was:

By activity	2011	2010
	Number	Number
Production	515	468
Administration	332	385
	847	853

5 Exceptional income

	2011	2010
	£'000	£'000
Exceptional pension income (note 22)	5,842	-

Exceptional items during the year related to a credit on the pension scheme. The pension credits arose as a consequence of the announcement by the UK Government that the inflation index to be used to derive statutory pension increases would be changed from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The credits arising the current year have been accounted for following the guidance set out in UITF48 'Accounting implications of the replacement of RPI with CPI for retirement benefits'. The past service credits have been accounted for as a change in benefits and recognised in the income statement. The net gain of this consequence plus completion of an age equalisation exercise resulted in the exceptional gain in the current year.

6 Interest receivable and similar income

	2011	2010
	£'000	£'000
Dividend income	23	114
On short term deposit	158	255
Other similar income	8	26
Net exchange gain	234	599
	423	994

UPM-Kymmene (UK) Limited

7 Interest payable and similar charges

	2011	2010
	£'000	£'000
On loans and bank overdrafts repayable within 5 years	20	192
Other similar charges	47	41
	67	233

8 Tax on profit on ordinary activities

	2011	2010
	£'000	£'000
UK Corporation tax:		
Current year charge at 26.5% (2010: 28%)	10,750	7,290
Under / (over) provision in prior year	428	(191)
Total current tax	11,178	7,099
Deferred tax charge at 25% (2010: 27%) (note 15)		
Origination and reversal of timing differences	(872)	(1,842)
Adjustment in respect of previous years	(821)	271
Pension income / (cost) relief in excess of pension cost charge	2,278	(217)
Change in tax rate	(2,024)	-
Tax on profit on ordinary activities	9,739	5,311

The tax for the year is lower (2010: higher) than the standard rate of corporation tax in the UK (26.5%). The differences are explained below:

	2011	2010
	£'000	£'000
Profit on ordinary activities before tax	42,828	19,838
Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 26.5% (2010: 28%)	11,349	5,555
Effects of:		
Items not allowable for tax purposes	890	679
Capital allowances in excess of depreciation	3,278	3,269
Movement in the FRS 17 gross pension deficit less actuarial (gains) / losses	(2,415)	274
Other short term timing differences	(2,352)	(2,487)
Prior year adjustment	428	(191)
Current year tax charge	11,178	7,099

UPM-Kymmene (UK) Limited

8 Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges:

During the year, a change in the UK corporation tax rate from 28% to 26%, effective from 1 April 2011 was substantively enacted in March 2011. A further reduction to 25%, effective from 1 April 2012 was substantively enacted in July 2011 and the relevant deferred tax balances have been re-measured accordingly.

In addition to the change in rate of corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. The main corporation tax rate is to be further reduced to 24%, effective from 1 April 2012, and further reductions are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Had the change in rate to 22% been substantively enacted as of the balance sheet date, there would have been no significant impact on the accounts.

9 Intangible assets: emission rights

	2011	2010
	£'000	£'000
Value as at 1 January	1,833	310
Allocated during the year	1,649	3,505
Purchased during the year	58	92
Disposals during the year	(1,896)	(2,074)
Value as at 31 December	1,644	1,833

UPM-Kymmene (UK) Limited

10 Tangible assets

	Land and Buildings	Plant and Machinery, Fixtures and Fittings	Total
	£'000	£'000	£'000
Cost			
At 1 January 2011	155,554	683,680	839,234
Additions	3,822	5,028	8,850
Disposals	-	(769)	(769)
At 31 December 2011	159,376	687,939	847,315
Depreciation			
At 1 January 2011	66,542	504,021	570,563
Charge for year	3,818	22,555	26,373
Disposals	-	(597)	(597)
At 31 December 2011	70,360	525,979	596,339
Net book value			
At 31 December 2011	89,016	161,960	250,976
At 31 December 2010	89,012	179,659	268,671

The cost of heritable land amounts to £3,637,000 (2010: £3,637,000).

All land and buildings are freehold or heritable.

Included in plant and machinery is capital work in progress of £2,542,000 (2010: £14,748,000), which is not depreciated.

Included in plant and machinery is leased plant with a cost of £158,577,000 (2010: £158,577,000) and accumulated depreciation of £158,548,000 (2010: £158,541,000).

UPM-Kymmene (UK) Limited

11 Investments

	Unlisted Investments
	£'000
Cost	
At 1 January 2011	265
At 31 December 2011	265

The following information relates to investments:

Name of Undertaking	Description of shares held	Proportion of shares	Principal activity of undertaking
BSW Harvesting Limited *	Ordinary shares	30%	Non trading
BSW Timber Limited *	Ordinary shares	5.98%	Sawmilling of timber

** incorporated in Scotland.*

BSW Timber Ltd has a non-coterminous year end, its financial statements being prepared for the period ending 31 March each year.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

12 Stocks

	2011	2010
	£'000	£'000
Raw materials	18,252	13,515
Engineering and consumable stores	4,889	5,419
Work in progress	301	446
Finished goods	18,940	13,329
	42,382	32,709

In the opinion of the directors there is no material difference between the replacement cost of stocks and their balance sheet values.

UPM-Kymmene (UK) Limited

13 Debtors

	2011	2010
	£'000	£'000
Trade debtors	133,851	115,622
Short term loan (refer to below)	960	-
Amounts due from fellow subsidiary undertakings	15,318	34,814
Amounts due from Holding Company	30,095	-
Other debtors	198	964
Prepayments and accrued income	893	1,341
	181,315	152,741

The short term loan is owed by Norfolk House Management Ltd, a fellow subsidiary undertaking of the corporation. The loan is interest bearing, unsecured and repayable on demand.

Amounts due from fellow subsidiary undertakings and from the Holding Company are non-interest bearing, unsecured and repayable on demand.

14 Creditors: amounts falling due within one year

	2011	2010
	£'000	£'000
Trade creditors	38,438	24,477
Advances received	6	94
Group balances:		
- amounts due to fellow subsidiary undertakings	91,588	93,832
- amounts due to holding company	-	9,969
Other creditors	741	233
Corporation tax	4,968	4,104
Other tax and social security	137	98
Accruals and deferred income	15,270	17,936
	151,148	150,743

Amounts due to fellow subsidiary undertakings and to the Holding Company are non-interest bearing, unsecured and repayable on demand.

UPM-Kymmene (UK) Limited

15 Provisions for liabilities and charges

	Emission Rights	Restructuring	Deferred Tax	Total
	£'000	£'000	£'000	£'000
At 1 January 2011	368	259	27,330	27,957
Increases to existing provisions	202	134	(3,717)	(3,381)
Utilised during the year	(368)	(393)	-	(761)
At 31 December 2011	202	-	23,613	23,815

Emission rights:

The Company takes part in the government programme aimed at reducing greenhouse gas emissions. In 2011 the Company has recognised a provision to cover the obligation to return emission allowances that were utilised during the year.

Restructuring provisions:

A provision was made for outstanding payments in connection with the restructuring of the Company's Mills, Sales Offices and Shared Services organisations.

Deferred Tax:

During the year, a change in the UK corporation tax rate from 28% to 26%, effective from 1 April 2011 was substantively enacted in March 2011. A further reduction to 25%, effective from 1 April 2012 was substantively enacted in July 2011 and the relevant deferred tax balances have been re-measured accordingly.

The deferred tax liability, excluding the deferred tax asset on the pension liability, recognised in the financial statements is as follows:

	£'000
At 1 January 2011	27,330
Credit to profit and loss account (note 8)	(3,717)
At 31 December 2011	23,613

UPM-Kymmene (UK) Limited

15 Provisions for liabilities and charges (continued)

The total net deferred tax liability recognised in the financial statements is as follows:

	2011	2010
	£'000	£'000
Excess of depreciation over tax allowances	23,312	29,726
Other timing differences	301	(2,396)
Deferred tax	23,613	27,330
Deferred tax asset on pension liability	(11,636)	(8,580)
Total deferred tax liability	11,977	18,750
At 1 January	18,750	17,255
Deferred tax credit in profit and loss account (note 8)	(1,439)	(1,788)
Deferred tax in statement of total recognised gains and losses	(5,334)	3,283
At 31 December	11,977	18,750

16 Deferred income: government grants

	2011	2010
	£'000	£'000
At 1 January	18,057	18,202
Additions	1,190	5,004
Profit and loss account	(1,663)	(5,149)
At 31 December	17,584	18,057

17 Called up share capital

	2011	2010
	£'000	£'000
Allotted, called up and fully paid		
16,000,000 ordinary shares of £10 each	160,000	160,000

UPM-Kymmene (UK) Limited

18 Profit and loss account

	£'000
At 1 January 2011 as previously stated	76,600
Actuarial gain on pension scheme	(23,877)
Movement on deferred tax relating to pension liability	5,969
Movement on deferred tax relating to rate change	(635)
Profit for the financial year	33,089
At 31 December 2011	91,146
Pension liability	34,908
Profit and loss reserve excluding pension liability	126,054

19 Reconciliation of movement in shareholders' funds

	2011	2010
	£'000	£'000
Opening shareholders' funds	236,600	214,765
Actuarial (loss) / gain on pension scheme	(23,877)	10,591
Movement on deferred tax relating to pension scheme	5,969	(2,965)
Movement on deferred tax relating to rate change	(635)	(318)
Profit for the financial year	33,089	14,527
Closing shareholders' funds	251,146	236,600

20 Capital commitments

	2011	2010
	£'000	£'000
Contracted but not provided for in the financial statements	3,373	5,657

Capital commitments relate to contracts for project investments at the production Units, Caledonian and Shotton.

UPM-Kymmene (UK) Limited

21 Operating lease commitments

At 31 December 2011, the Company had annual commitments under non-cancellable operating leases expiring as follows:

	2011		2010	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Within one year	46	20	27	33
In two to five years	229	91	288	92
	275	111	315	125

22 Pensions

UPM-Kymmene Corporation operates a defined contribution pension scheme for all UK employees. The UPM-Kymmene UK Pension Scheme also includes several defined benefit sections which are closed to future accrual. The scheme funds are administered by trustees and are independent of the Company's finances. Contributions are paid to the defined benefit scheme in accordance with the recommendations of an independent actuarial adviser and agreed with the company.

The principal assumptions used by the actuary in evaluating the defined benefit scheme liabilities were:

	2011	2010
Investment return	6.12%	6.74%
Pension increases: LPI (RPI max 5% p.a.)	3.25%	3.25%
Deferred revaluation		
RPI-based	n/a	3.50%
CPI-based	2.20%	2.75%
Discount rate	4.90%	5.40%
Inflation assumption - RPI	3.40%	3.50%
Inflation assumption - CPI	2.20%	2.75%
Pre retirement mortality	AMC/AFC00 (YOB) Medium Cohort (from 2000) (1% pa min improvement)	AMC/AFC00 (YOB) Medium Cohort (from 2000) (1% pa min improvement)
Pensioner post retirement mortality	75% S1PMA/70% S1PFA (YOB) Medium Cohort (1% pa min improvement) (pre 2008 improvements removed)	75% S1PMA/70% S1PFA92 (YOB) Medium Cohort (1% pa min improvement) (pre 2008 improvements removed)

UPM-Kymmene (UK) Limited

22 Pensions (continued)

The fair value of the defined benefit scheme assets held in each asset class was:

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Equities	67,599	107,578	97,139	77,788	74,835
Property	13,849	13,638	7,300	7,935	10,814
Bonds	37,274	32,054	30,926	31,208	28,880
Government Securities	13,056	10,758	10,423	12,015	14,440
Diversified Growth Fund	33,481	-	-	-	-
Cash	371	736	6,867	6,608	808
Total market value of assets	165,630	164,764	152,655	135,554	129,777

The equity investments and bonds which are held in plan assets are quoted and valued at current bid price following the amendment to FRS17. Previously these were valued at mid price. The comparative figures have not been restated as the difference between the mid and bid valuations is considered to be immaterial.

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Market value plan assets	165,630	164,764	152,655	135,554	129,777
Present value of scheme liabilities (wholly or partly funded)	(212,174)	(196,542)	(194,045)	(125,792)	(161,895)
(Deficit) / surplus in the scheme	(46,544)	(31,778)	(41,390)	9,762	(32,118)
Irrecoverable surplus	-	-	-	(9,762)	-
Related deferred tax asset	11,636	8,580	11,589	-	8,993
Net pension liability	(34,908)	(23,198)	(29,801)	-	(23,125)
Experience gains and (losses) on scheme liabilities	(4,649)	12,697	(2,654)	515	(183)
Experience gains and (losses) between the actual and expected return on scheme assets	(6,763)	7,699	13,406	(35,388)	(479)

UPM-Kymmene (UK) Limited

22 Pensions (continued)

To determine the expected long-term rate of return on assets at the balance sheet date, the company considered the level of expected returns on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations of future returns for each asset class. The expected return for each asset class was then weighted, based on the actual asset allocation at the balance sheet date, to determine the expected long-term rate of return on assets for the portfolio. This has resulted in an expected return assumption of 6.12% p.a. as at 31 December 2011 and 6.74% p.a. as at 31 December 2010.

	2011	2010
	£'000	£'000
Actual return on scheme assets	4,228	17,719

Analysis of the amount charged to other finance income

	2011	2010
	£'000	£'000
Interest on pension scheme liabilities	(10,451)	(10,999)
Expected return on assets in the pension scheme	10,991	10,020
Net credit / (charge) to other finance income	540	(979)

Analysis of the exceptional operating income

	2011	2010
	£'000	£'000
Past service gain	5,842	-
Total credit	5,842	-

Analysis of the amounts recognised in the statement of recognised gains and losses

	2011	2010
	£'000	£'000
(Loss) / gain on assets	(6,763)	7,699
Experience (loss) / gain on liabilities	(4,649)	12,697
Loss on change of assumptions (financial and demographic)	(12,465)	(9,805)
Total (loss) /gain recognised in the statement of recognised gains and losses	(23,877)	10,591
Cumulative total loss recognised in the statement of recognised gains and losses	(70,782)	(46,905)

UPM-Kymmene (UK) Limited

22 Pensions (continued)

Analysis of the movement in deficit in the fund during the period

	2011
	£'000
Deficit in the plan at beginning of year	(31,778)
Other finance income	540
Actuarial loss	(23,877)
Sponsor contributions	2,729
Past service gain	5,842
Deficit in the plan at end of year	(46,544)

Reconciliation of present value of scheme liabilities

	2011
	£'000
Opening defined benefit obligation	(196,542)
Interest cost	(10,451)
Actuarial gain	(17,114)
Past service gain	5,842
Benefits paid	6,091
Closing defined benefit obligation	(212,174)

Reconciliation of present value of scheme assets

	2011
	£'000
Opening fair value of scheme assets	164,764
Expected return	10,991
Actuarial loss	(6,763)
Benefits paid	(6,091)
Sponsor contributions	2,729
Closing fair value of scheme assets	165,630

UPM-Kymmene (UK) Limited

22 Pensions (continued)

Following the actuarial valuation of the UPM-Kymmene UK Pension Scheme as at April 2010 a formal recovery plan and resulting participating employer contributions was agreed between the company, the trustee board and advisers. The outcome has resulted in Company contributions of £2,729,000 p.a. commencing from 2011 through to at least the next formal Actuarial valuation which takes place as at 1st April 2013.

The April 2010 Actuarial valuation has, in line with recent UK Government guidance, adopted CPI rather than RPI for future increases on pensions in deferment and also taken into consideration retirement age equalisation. The net effect of these 2 amendments accounts for the exceptional operating income of £5,842,000.

The Company also operates a defined contribution pension scheme, the contributions charged to the profit and loss account in the year were £4,593,000 (2010: £4,074,000).

23 Related party transactions

The Company has taken advantage of the exemptions provided by FRS 8 "Related party disclosures" and has not disclosed transactions with other group companies who are also wholly owned subsidiaries.

During the year one transaction took place with a related party. A short term loan was granted to Norfolk House Management Ltd, a fellow subsidiary undertaking of the corporation. The value of this loan is £960,000, and is interest bearing, unsecured and repayable on demand. The corporation holds 95% of the issued ordinary shares of Norfolk House Management Ltd. This was the only transaction

24 Ultimate parent undertaking

The immediate parent undertaking is UPM-Kymmene (UK) Holdings Ltd, a Company incorporated in England and Wales. The ultimate parent undertaking and controlling party is UPM-Kymmene Corporation, a Company incorporated in Finland.

UPM-Kymmene Corporation is the parent undertaking of the only group of undertakings to consolidate these financial statements as at 31 December 2011. The consolidated financial statements of UPM-Kymmene Corporation can be obtained from Etelaesplanadi 2, P.O. Box 380, FI-00101 Helsinki, Finland.