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UPM-Kymmene (UK) Limited

Directors' report and financial statements

for the year ended 31 December 2012

Registered Number: SC102969

UPM-Kymmene (UK) Limited

Directors' report and financial statements for the year ended 31 December 2012

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UPM-Kymmene (UK) Limited

Directors and advisers for the year ended 31 December 2012

Directors

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 2012

The directors present their annual report and audited financial statements for the year ended 31 December 2012.

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, label materials and wood products. The directors are not aware, at the date of this report, of any likely major changes to 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.

During the year the Group implemented a new sales operating mode for the Paper business group. This change in operating mode transferred the ownership of finished goods stock from production units to the Groups' European sales office. Sales from the production units are now direct to the European sales office, who in turn sell directly to the third party customer. This new sales operating mode means the UK paper sales office no longer purchase from the foreign mills or directly invoice the UK customers, such sales now being made via the European Sales Company. As a result there are large one-off movements in turnover, cost of sales, stocks, debtors and creditors in comparison to prior year figures.

In the fourth quarter of 2012, UPM Group conducted an impairment test of the whole of its Paper segment. This reflected the continuing challenges in the European economy which have significantly impacted the consumption of paper. High costs and significant over capacity continue to challenge the industry operators. As a result, UPM Group recorded significant write downs in the carrying value of goodwill, and property, plant and equipment, and certain other assets in the European paper operations. Within the UK, this has resulted in an impairment of £79,478,000 relating to property, plant and equipment, and is disclosed as an exceptional item during the year.

As shown in the Company's profit and loss account on page 8, turnover decreased to £635,954,000, a decrease of 34% from 2011. The new sales operating mode is the main driver behind this decrease in turnover. Operating profit has decreased from a profit of £41,932,000 to a loss of £68,135,000. This loss is largely due to the asset impairment, but is also impacted by drop in demand, lower sales prices and increased variable costs. Both paper 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 2012 the demand for paper products in the UK was lower than the previous year. Magazine and newsprint sales prices were also lower than in 2011, with raw material prices being higher than in 2011. Global demand growth for self-adhesive labelstock gradually decreased during the year. Plywood demand in Europe decreased in 2012 and still remains below pre-recession demand levels. Timber demand in Europe continued to be weak in 2012 due to the slowing economy and weakening building activity.

The directors do not propose the payment of a dividend (2011: £nil). The retained loss 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 remains strong.

UPM-Kymmene (UK) Limited

Key performance indicators

UPM manages its worldwide operations on a business group basis: energy and pulp; paper; engineered materials. 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.

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

Economic growth in Europe is expected to remain low in the early part of 2013, with a negative impact on the European graphic paper markets in particular. UPM's cost level is expected to be stable. The Company will continue to seek cost savings through internal efficiencies and synergy benefits.

Directors

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

DG 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.

UPM-Kymmene (UK) Limited

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.

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

Third party trade creditors at the year end represented 41 days (2011: 35 days) of purchases.

Charitable and political donations

During the year the Company made donations of £24,000 (2011: £9,057) 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.

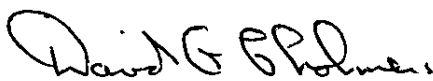
UPM-Kymmene (UK) Limited

Auditors and disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far 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 were 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 4th April 2013.

By order of the Board



D G Chalmers

Director and Company Secretary

21 May 2013

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 2012 which comprise Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, 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 directors' report and 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 2012 and of its loss for the year then ended
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

UPM-Kymmene (UK) Limited

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.

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
22 May 2013

UPM-Kymmene (UK) Limited

Profit and loss account for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	1	635,954	961,129
Cost of sales - standard		(594,722)	(878,775)
Cost of sales - exceptional	5	(79,478)	-
Gross (Loss) / Profit		(38,246)	82,354
Distribution and selling costs		(11,866)	(27,494)
Administrative costs		(21,534)	(22,871)
Exceptional income	5, 22	-	5,842
Other operating income		3,511	4,101
Operating (Loss) / Profit	2	(68,135)	41,932
Interest receivable and similar income	6	401	423
Interest payable and similar charges	7	(279)	(67)
Other finance (expense) / income	22	(238)	540
(Loss) / Profit on ordinary activities before taxation		(68,251)	42,828
Tax on (loss) / profit on ordinary activities	8	8,866	(9,739)
(Loss) / Profit for the financial year	19	(59,385)	33,089

All operations are continuing.

There is no difference between the (loss) / profit on ordinary activities before taxation and the retained (loss) / profit for the financial 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 2012

	Note	2012 £'000	2011 £'000
(Loss) / Profit for the financial year		(59,385)	33,089
Actuarial loss on pension scheme	22	(5,955)	(23,877)
Movement on deferred tax relating to pension liability	15	1,370	5,969
Movement on deferred tax relating to rate change	15	(1,135)	(635)
Total recognised (loss) / gain for the year and since last annual report		(65,105)	14,546

UPM-Kymmene (UK) Limited

Balance sheet as at 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed Assets			
Intangible assets	9	2,770	1,644
Tangible assets	10	152,774	250,976
Investments	11	264	265
		155,808	252,885
Current Assets			
Stock	12	26,647	42,382
Debtors	13	134,012	181,315
Cash at bank and in hand		1	2,019
		160,660	225,716
Creditors: amounts falling due within one year	14	(65,116)	(151,148)
Net current assets		95,544	74,568
Total assets less current liabilities		251,352	327,453
Provisions for liabilities	15	(8,074)	(23,815)
Deferred income	16	(11,553)	(17,584)
Net assets excluding pension liability		231,725	286,054
Pension liability	22	(45,684)	(34,908)
Net assets including pension liability		186,041	251,146
Capital and reserves			
Called up share capital	17	160,000	160,000
Profit and loss account	18	26,041	91,146
Total shareholders' funds	19	186,041	251,146

The financial statements on pages 8 to 28 were approved by the board of directors on 21 May 2013 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 with the Companies Act 2006. The principal accounting policies, which have been applied consistently through out the year, are set out below.

Cash flow statement

The company has taken advantage of the exemption available to subsidiary undertakings under FRS1 (Revised) from publishing 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 lower of market value at the date of initial recognition, or balance sheet date. Any losses noted in revaluation are recognised in the profit and loss account. 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 to the defined contribution section 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 demonstrably committed to payment.

Related party transactions

The company has taken advantage of the exception available under FRS8 "Related Party Disclosures" not to disclose transactions with group companies, as it is a wholly owned subsidiary undertaking.

Exceptional item

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 better understanding of the underlying performance of the company.

UPM-Kymmene (UK) Limited

Notes to the financial statements for the year ended 31 December 2012

1 Turnover

The new sales operating mode in the paper business group has the effect of a large increase in the sales to Group companies, and a substantial decrease in sales to third parties in comparison to the prior year.

	2012 £'000	2011 £'000
Sales to third parties	286,954	836,560
Sales through group companies	349,000	124,569
	635,954	961,129

2 Operating (loss) / profit

	2012 £'000	2011 £'000
Operating (loss) / profit is stated after charging:		
Auditors' remuneration		
- audit fees payable to the company's auditor	58	49
- fees payable to the auditor for other services:		
- other services relating to taxation	33	42
- services relating to recruitment and remuneration	-	2
- all other services	9	10
Depreciation of owned tangible fixed assets	28,276	26,366
Depreciation of tangible fixed assets held under finance leases	7	7
Profit on disposal of tangible fixed assets	(11)	(10)
Research and development	10	19
Operating leases		
- amounts in respect of the hire of motor vehicles	308	215
- other operating leases	340	177

UPM-Kymmene (UK) Limited

Notes to the financial statements for the year ended 31 December 2012

3 Directors' emoluments

One of the directors is remunerated by the ultimate parent company.

	2012 £'000	2011 £'000
Aggregate emoluments	119	337
Aggregate pension contributions	46	55
	165	392

Retirement benefits accrued in the year to one director (2011: two) under a defined contribution scheme. Deferred retirement benefits have accrued to one director (2011: one) under a closed defined benefit scheme. No directors (2011: one) exercised share options in the year and no directors received share options (2011: nil) in respect of their qualifying services under incentive schemes.

Highest paid director

	2012 £'000	2011 £'000
Emoluments of the highest paid director were as follows:		
Aggregate emoluments	119	194
Aggregate pension contributions	46	28
	165	222

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.

4 Staff costs (including directors' remuneration)

	2012 £'000	2011 £'000
Salaries	40,244	33,429
Social security costs	4,717	3,840
Other pension costs (note 22)	7,357	4,593
	52,318	41,862

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

	2012 Number	2011 Number
Production	610	515
Administration	408	332
	1,018	847

UPM-Kymmene (UK) Limited

5 Exceptional items

	2012 £'000	2011 £'000
Exceptional pension income (note 22)	-	5,842
Exceptional impairment of fixed assets - grant income (note 16)	4,402	-
Exceptional impairment of fixed assets (note 10)	(83,880)	-
	(79,478)	5,842

In the fourth quarter of 2012, UPM Group conducted an impairment test of the whole of its Paper segment. This reflected the continuing challenges in the European economy which have significantly impacted the consumption of paper. High costs and significant over capacity continue to challenge the industry operators. As a result, UPM Group recorded significant write downs in the carrying value of goodwill, and property, plant and equipment, and certain other assets in the European paper operations.

6 Interest receivable and similar income

	2012 £'000	2011 £'000
Dividend income	45	23
On short term deposit	347	158
Other similar income	9	8
Net exchange gain	-	234
	401	423

7 Interest payable and similar charges

	2012 £'000	2011 £'000
On loans and bank overdrafts repayable within 5 years	3	20
Other similar charges	49	47
Net exchange loss	227	-
	279	67

UPM-Kymmene (UK) Limited

8 Tax on (loss) / profit on ordinary activities

	2012 £'000	2011 £'000
UK corporation tax:		
Current year charge at 24.5% (2011: 26.5%)	6,602	10,750
Prior year adjustment	(120)	428
Total current tax	6,482	11,178
Deferred tax credit at 23% (2011: 25%) (note 15)		
Origination and reversal of timing differences	(14,068)	(872)
Adjustment in respect of previous years	(143)	(821)
Pension income relief in excess of pension cost charge	779	2,278
Change in tax rate	(1,916)	(2,024)
Tax on (loss) / profit on ordinary activities	(8,866)	9,739

The tax for the year is higher (2011: lower) than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £'000	2011 £'000
(Loss) / profit on ordinary activities before tax	(68,252)	42,828
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in UK of 24.5% (2011: 26.5%)	(16,722)	11,349
Effects of:		
Items not allowable for tax purposes	9,167	890
Capital allowances in excess of depreciation	14,723	3,278
Movement in the FRS17 gross pension deficit less actuarial (gains) / losses	(828)	(2,415)
Other short term timing differences	262	(2,352)
Prior year adjustment	(120)	428
Current year tax charge	6,482	11,178

Factors that may affect future tax charges:

During the year, a change in the UK corporation tax rate from 26% to 24%, effective from 1 April 2012 was substantively enacted in March 2012. A further reduction to 23%, effective from 1 April 2013 was substantively enacted in July 2012 and the relevant deferred tax balances have been re-measured accordingly.

In addition to the change in rate of corporation tax disclosed above, further changes to the UK corporation tax rates were announced in the 2012 Autumn statement and the March 2013 Budget. These include further reductions of the main rate to reduce to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions to the main rate of corporation tax are both expected to be enacted as part of Finance Act 2013. Had the change in the tax rate been substantively enacted as of the balance sheet date, there would have been no significant impact on the accounts.

UPM-Kymmene (UK) Limited

9 Intangible assets: emission rights

	2012 £'000	2011 £'000
Value as at 1 January	1,644	1,833
Impairment to 2011 assets	(137)	-
Allocated during the year	1,509	1,649
Purchased during the year	3	58
Disposals during the year	(249)	(1,896)
Value as at 31 December	2,770	1,644

10 Tangible assets

	Land and Buildings £'000	Plant and Machinery, Fixtures and Fittings £'000	Total £'000
Cost			
At 1 January 2012	159,376	687,939	847,315
Transfers in	4,469	30,768	35,237
Additions	308	8,544	8,852
Disposals	(56)	(17,734)	(17,790)
At 31 December 2012	164,097	709,517	873,614
Depreciation			
At 1 January 2012	70,360	525,979	596,339
Transfers in	1,973	28,148	30,121
Charge for the year	3,918	24,365	28,283
Impairment	30,360	53,520	83,880
Disposals	(56)	(17,727)	(17,783)
At 31 December 2012	106,555	614,285	720,840
Net book value			
At 31 December 2012	57,542	95,232	152,774
At 31 December 2011	89,016	161,960	250,976

The cost of heritable land amounts to £4,717,000 (2011: £3,637,000)

All land and buildings are freehold or heritable. There is no material difference between the market value and book value of these land and buildings.

Included in plant and machinery is capital work in progress of £3,114,000 (2011: £2,542,000), which is not depreciated.

Included in plant and machinery is leased plant with a cost of £158,577,000 (2011: £158,577,000) and accumulated depreciation of £158,556,000 (2011: £158,548,000).

UPM-Kymmene (UK) Limited

11 Investments

	Unlisted Investments £'000
Cost	
At 1 January 2012	265
Write off	(1)
At 31 December 2012	264

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 Limited 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

	2012 £'000	2011 £'000
Raw materials	10,204	18,252
Engineering and consumable stores	8,190	4,889
Work in progress	1,224	301
Finished goods	7,029	18,940
	26,647	42,382

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

	2012 £'000	2011 £'000
Trade debtors	37,862	133,851
Short term loan (refer to below)	960	960
Amounts due from fellow subsidiary undertakings	21,524	15,318
Amounts due from Holding Company	69,523	30,095
Amounts due from associated company	2,589	-
Other debtors	581	198
Prepayments and accrued income	973	893
	134,012	181,315

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, the Holding Company and associated company are non-interest bearing, unsecured and repayable on demand.

14 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	37,979	38,438
Advances received	24	6
Amounts due to fellow subsidiary undertakings	19,137	91,588
Other creditors	88	741
Corporation tax	3,114	4,968
Other tax and social security	263	137
Accruals and deferred income	4,511	15,270
	65,116	151,148

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

UPM-Kymmene (UK) Limited

15 Provisions for liabilities and charges

	Emission Rights	Restructuring	Onerous Contract	Deferred Tax	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2012	202	-	-	23,613	23,815
Transfer in	-	25	196	336	557
Increases / (decreases) to existing provisions	132	(12)	46	(16,127)	(15,961)
Utilised during the year	(196)	(13)	(128)	-	(337)
At 31 December 2012	138	-	114	7,822	8,074

Emission rights:

The Company takes part in the government programme aimed at reducing greenhouse gas emissions. In 2012 the Company has recognised a provision to cover the obligation to return emission allowances that were utilised during the year.

Restructuring provision:

A provision was made in 2011 in connection with restructuring within the Raflatac unit.

Onerous contract:

A provision has been made for the onerous contract relating to a leased property which has now been vacated. In determining the provision, the cash flows have been discounted on a pre-tax basis using the corporation's treasury department internal rate of return. The lease terminates on 31.1.2014.

Deferred Tax:

During the year, a change in the UK corporation tax rate from 26% to 24%, effective from 1 April 2012 was substantively enacted in March 2012. A further reduction to 23%, effective from 1 April 2013 was substantively enacted in July 2012 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 2012	23,613
Transfer in	336
Credit to profit and loss account (note 8)	(16,127)
At 31 December 2012	7,822

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:

	2012 £'000	2011 £'000
Excess of depreciation over tax allowances	7,822	23,312
Other timing differences	-	301
Deferred tax	7,822	23,613
Deferred tax on pension liability	(13,646)	(11,636)
Total deferred tax (asset) / liability	(5,824)	11,977
At 1 January	11,977	18,750
Transfer in	(2,218)	-
Deferred tax credit in profit and loss account (note 8)	(15,348)	(1,439)
Deferred tax in statement of total recognised gains and losses	(235)	(5,334)
At 31 December	(5,824)	11,977

16 Deferred income: government grants

	2012 £'000	2011 £'000
At 1 January	17,584	18,057
Additions	170	1,190
Profit and loss account	(1,799)	(1,663)
Exceptional impairment of fixed assets	(4,402)	-
At 31 December	11,553	17,584

17 Called up share capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
16,000,000 ordinary shares of £10 each	160,000	160,000
	160,000	160,000

UPM-Kymmene (UK) Limited

18 Profit and loss account

	£'000
At 1 January 2012	91,146
Actuarial loss on pension scheme	(5,955)
Movement on deferred tax relating to pension liability	1,370
Movement on deferred tax relating to rate change	(1,135)
Loss for the financial year	(59,385)
At 31 December 2012	26,041
Pension liability	45,684
Profit and loss reserve excluding pension liability	71,725

19 Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Opening shareholders' funds	251,146	236,600
Actuarial loss on pension scheme	(5,955)	(23,877)
Movement on deferred tax relating to pension scheme	1,370	5,969
Movement on deferred tax relating to rate change	(1,135)	(635)
(Loss) / profit for the financial year	(59,385)	33,089
Closing shareholders' funds	186,041	251,146

20 Capital commitments

	2012 £'000	2011 £'000
Contracted but not provided for in the financial statements	4,830	3,373

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

21 Operating lease commitments

	2012		2011	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Within one year	48	34	46	20
In two to five years	320	258	229	91
	368	292	275	111

UPM-Kymmene (UK) Limited

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.

On 1st May 2012 the assets and liabilities of the UPM Raflatac Limited Pension Plan were transferred into the UPM-Kymmene UK Pension Scheme following the successful merger of the 2 schemes.

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

	2012	2011
Investment return	6.13%	6.12%
Pension increases: LPI (RPI max 5% p.a.)	3.20%	3.25%
Deferred revaluation		
CPI-based	2.35%	2.20%
Discount rate	4.65%	4.90%
Inflation assumption - RPI	3.35%	3.40%
Inflation assumption - CPI	2.35%	2.20%
Pre retirement mortality	AMC/AFC00 (YOB) Medium Cohort (from 2000) with 1% pa min improvement	
Pensioner post retirement mortality	75% S1PMA/70% S1PFA (YOB) Medium Cohort with 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:

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Equities	89,891	67,599	107,578	97,139	77,788
Property	13,621	13,849	13,638	7,300	7,935
Bonds	56,102	37,274	32,054	30,926	31,208
Government Securities	15,963	13,056	10,758	10,423	12,015
Diversified Growth Fund	44,024	33,481	-	-	-
Cash	377	371	736	6,867	6,608
Total market value of assets	219,978	165,630	164,764	152,655	135,554

The equity investments and bonds which are held in plan assets are quoted and valued at current bid price.

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Market value plan assets	219,978	165,630	164,764	152,655	135,554
Present value of scheme liabilities (wholly or partly funded)	(279,308)	(212,174)	(196,542)	(194,045)	(125,792)
(Deficit) / surplus in the scheme	(59,330)	(46,544)	(31,778)	(41,390)	9,762
Irrecoverable surplus	-	-	-	-	(9,762)
Related deferred tax asset	13,646	11,636	8,580	11,589	-
Net pension liability	(45,684)	(34,908)	(23,198)	(29,801)	-
Experience gains and (losses) on scheme liabilities	(1,322)	(4,649)	12,697	(2,654)	515
Experience gains and (losses) between the actual and expected return on scheme assets	9,356	(6,763)	7,699	13,406	(35,388)

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 6.13% p.a. as at 31 December 2012 and 6.12% p.a. as at 31 December 2011.

UPM-Kymmene (UK) Limited

22 Pensions (continued)

	2012 £'000	2011 £'000
Actual return on scheme assets	21,589	4,228

Analysis of the amount charged to other finance income

	2012 £'000	2011 £'000
Interest on pension scheme liabilities	(12,472)	(10,451)
Expected return on assets in the pension scheme	12,234	10,991
Net (charge) / credit to other finance income	(238)	540

Analysis of the exceptional operating income

	2012 £'000	2011 £'000
Past service gain	-	5,842
Total credit	-	5,842

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

	2012 £'000	2011 £'000
Gain / (loss) on assets	9,356	(6,763)
Experience loss on liabilities	(1,322)	(4,649)
Loss on change of assumptions (financial and demographic)	(14,317)	(12,465)
Re-allocation of historical scheme deficit	328	-
Total loss recognised in the statement of recognised gains and losses	(5,955)	(23,877)

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

	2012 £'000
Deficit in the scheme at beginning of year	(46,544)
Transfer in of UPM Raflatac Plan	(10,212)
Other finance expense	(238)
Actuarial loss	(6,283)
Re-allocation of historical scheme deficit	328
Sponsor contributions	3,619
Deficit in the scheme at end of year	(59,330)

UPM-Kymmene (UK) Limited

22 Pensions (continued)

Reconciliation of present value of scheme liabilities

	2012 £'000
Opening defined benefit obligation	(212,174)
Transfer in of UPM Raflatac Plan	(47,131)
Interest cost	(12,472)
Actuarial loss	(15,639)
Benefits paid	6,576
Re-allocation of historical scheme liabilities	1,532
Closing defined benefit obligation	(279,308)

Reconciliation of present value of scheme assets

	2012 £'000
Opening fair value of scheme assets	165,630
Transfer in of UPM Raflatac Plan	36,919
Expected return	12,234
Actuarial gain	9,356
Benefits paid	(6,576)
Sponsor contributions	3,619
Re-allocation of historical scheme assets	(1,204)
Closing fair value of scheme assets	219,978

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 £3,619,000 p.a. commencing from 2011 through to at least the next formal Actuarial valuation which will be as at 1 April 2013.

The Company also operates a defined contribution pension scheme, the contributions charged to the profit and loss account in the year were £7,357,000 (2011: £4,593,000).

UPM-Kymmene (UK) Limited

23 Related party transactions

The Company has taken advantage of the exemptions provided by FRS8 "Related party disclosures" and has not disclosed transactions with other group companies who are also wholly owned subsidiaries.

During 2011 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. There were no further transactions in 2012 and this loan remains at the balance sheet date.

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 2012. The consolidated financial statements of UPM-Kymmene Corporation can be obtained from Etelaesplanadi 2, P.O. Box 380, FI-00101 Helsinki, Finland.