Republic Technologies (UK) Limited

Report and Financial Statements

31 December 2013

Directors
J Catania
SS Vila

Secretary
GM Long

Auditors
Ernst & Young LLP
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Luton
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Strategic Report

Principal activities and review of the business

During the year the principal activities of the UK business continued to be the sale and distribution of cigarette rolling papers and filters, matches, lighters and smoker's requisites. During 2013 the company performed well and in accordance with expectations.

During the year under review the Company performed in accordance with expectations.

The accounts for the year ended 31 December 2013 show a profit of £1,668,000 (2012: £3,878,000).

The directors proposed and paid a dividend of £3,000,000 in 2013 (2012: £2,000,000).

Market

2013 was another year where the market continued to change significantly with electronic cigarettes developing a much wider market presence as a mainstream alternative smoking category for current smokers. This developed in some channels rather more prominently than at any time before and lead to a whole new strategic focus for the trade outside of tobacco and smoker's accessories. As a result, reported market volumes of cigarettes and tobacco were under pressure vs. prior year. Roll-your-own (RYO) which drives the key categories in which we operate continued to provide a solid platform for our business. This category remained in overall growth, albeit the major sku's driving the growth increasingly contain either booklets of papers or a combination of papers and filters of a private label nature, sold at a highly competitive price and included with the RYO tobacco. These tobacco products are therefore reducing the size and scale of the resale products market to which we supply as demand for branded booklets or filters is reduced. The combination of these factors together with the UK adult population who smoke reducing, lead to a reduction in turnover and profit during the year. Meanwhile, our key market share positions improved or were stable in line with expectations, albeit of a smaller market.

Key performance indicators

The Company operates a number of KPIs to monitor and control the business which are measured on either a daily, weekly or monthly basis as appropriate. The KPIs include, but are not limited to:

Turnover
Gross profit
Operating profit
Debtor days
Creditor days
Inventory days

Turnover decreased by 6.9% year on year to £36,161,000 (2012 – £38,824,000).

Gross profit has decreased by 21.2% to £9,177,000 (2012 – £11,643,000).

In the year to 31 December 2013 the Company made an operating profit of £2,182,000 (2012 - £5,142,000).

Inventory days were higher in 2013 when compared to 2012. Improvements in stock cover on key lines being the main contributing factors. Average inventory days in 2013 were 52 (2012 – 36).

Average debtor days in 2013 were 56 (2012 – 60).

Within our creditor balance, the purchase ledger element was higher than 2012. Additionally the creditor balance includes accruals for customer based promotional activity, including any retrospective rebate payments. Overall the average creditor days in 2013 were 111 (2012 – 97).

Strategic Report (Continued)

Future strategy

The Company will continue to focus on the sale and distribution of cigarette papers and filters for the RYO category together with other smoker's accessories including matches, lighters and requisites. Growth areas will primarily be within the RYO segments which are anticipated to remain buoyant in line with the wider market. Opportunities outside of these categories are constantly being assessed and may form part of the Company's future plans. The lights category continues to be an integral part of the business.

Key risk factors

In line with our internal control policy and procedures, key risk factors are reviewed frequently and detailed analysis undertaken where there is a requirement to do so. Mitigating controls or plans are implemented where necessary and during 2013 no significant risks materialised within the business.

General economic activity

During 2013 the general economic position in the UK did not directly affect our progress. The channels in which we trade are very diverse and during the year there was a continued evolution away from traditional retail channels into newer, lesser established areas. Shopper/consumer behaviour continues to evolve and we focus on this closely to develop the best position for the Company within the market. Input costs have risen for filters and papers in 2013, other products also incurred cost price increases that have been managed effectively through the supply chain. The Company has no external borrowing so cash flow is not directly affected by interest rate movements or other wider macro economic factors.

Credit risk

Credit risk is managed within the internal control framework of the Company with frequent reviews and credit checking of key customers. New customers are required to supply references and are credit checked before credit is provided or extended. Despite the wider perceived upturn in the economic and trading environment, we remain highly focused on this area of our business.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out above.

The Company has considerable financial resources and it is expected that the Company will continue to generate positive cash flows in future.

The directors have a reasonable expectation that the Company has the resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the approval of these financial statements. The directors therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' report

The directors present their report and financial statements for the year ended 31 December 2013.

Results and dividends

The accounts for the year ended 31 December 2013 show a profit of £1,668,000 (2012: £3,878,000).

The directors proposed and paid a dividend of £3,000,000 in 2013 (2012: £2,000,000).

Political and charitable donations

The Company made no political contributions during the year. Donations to UK charities amounted to £975.00. This was made under the following category;

Trade Charities £975.00.

2012 charitable donations amounted to £200.00.

Directors

The directors who served the company during the year were as follows:

J Catania
SS Vila

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of Auditors

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual Board Meeting for reappointment of Ernst & Young LLP as auditors of the Company

By order of the Board

.... 5 JUNE 2014
John Catania Date
Director

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

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable laws 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.

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 have general responsibility for taking 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 Republic Technologies (UK) Limited

We have audited the financial statements of Republic Technologies (UK) Limited for the year ended 31 December 2013 which comprises the Profit and Loss Account, the Balance Sheet and the related notes 1 to 19. 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).

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 (APB's) Ethical Standards for Auditors.

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 Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 at 31 December 2013 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Republic Technologies (UK) Limited (continued)

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 received all the information and explanations we require for our audit.

Ernst & Young LLP
....
J Dervley (Senior Statutory Auditor)

For and on behalf of Ernst & Young, LLP (Statutory Auditor)
Luton

9 June 2014
....
Date

Profit and loss account

for the year ended 31 December 2013

	Notes	*2013* *£000*	*2012* *£000*
Turnover	2	36,161	38,824
Cost of sales		26,984	27,181
Gross profit		9,177	11,643
Distribution costs		5,667	5,452
Administrative expenses		1,328	1,049
Operating profit	3	2,182	5,142
Interest receivable and similar income	5	11	17
Profit on ordinary activities before taxation		2,193	5,155
Tax on profit on ordinary activities	6	(525)	(1,281)
Profit for the year	15	1,668	3,878

All items above relate to continuing operations. There are no recognised gains or losses other than those through the profit and loss account.

Balance sheet

for the year ended 31 December 2013

	Notes	*2013* *£000*	*2012* *£000*
Fixed assets			
Tangible assets	7	2,160	2,314
		2,160	2,314
Current assets			
Stocks	9	4,220	2,624
Debtors	10	7,970	8,257
Cash at bank and in hand		2,578	4,043
		14,768	14,924
Creditors: amounts falling due within one year	11	(9,425)	(8,406)
Net current assets		5,343	6,518
Total assets less current liabilities		7,503	8,832
Provisions for liabilities	12	(690)	(687)
Net assets		6,813	8,145
Capital and reserves			
Called up share capital	14	1	1
Profit and loss account	15	6,812	8,144
Shareholders' funds	16	6,813	8,145

The financial statements on pages 8 to 19 were approved by the Board of Directors and were signed on its behalf by:

5 JUNE 2014

John Catania
Director

Date

Company registered number: 873671

Notes to the financial statements

at 31 December 2013

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The Company is exempt by virtue of s402 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Statement of cash flow

The directors have taken advantage of the exemption in FRS 1 Cash flow statements from including a cash flow statement on the grounds that the Company is wholly owned and its parent publishes a consolidated cash flow statement. Note 20 gives details as to where consolidated financial statements can be obtained.

Related party transactions

As the Company was a wholly owned subsidiary of Republic Technologies International SAS the Company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Turnover

Turnover comprises amounts invoiced to customers and fellow subsidiaries less returns and trade discounts, volume rebates and value added tax. Turnover is recognised in the financial statements when goods are despatched.

Tangible fixed assets and depreciation

Tangible fixed assets except Land are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Land is held at cost.

Depreciation is provided on all tangible fixed assets to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight-line basis over its expected useful life as follows:

Buildings	40 - 50 years
Plant and machinery	3 - 10 years
Motor Vehicles	3 - 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Finished goods are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and, in respect of work-in-progress and finished stocks, includes an appropriate proportion of overhead costs. Where necessary, provision is made for obsolete, slow moving and defective stocks on a systematic basis.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Deferred tax

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the taxable profits and the 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 recognized in the financial statements.

A net deferred tax asset is regarded as recoverable, and therefore recognized, only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the average tax rate that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted by the balance sheet date.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at the agreed contractual rate. Transactions in foreign currency are translated into sterling at the rate of exchange ruling at the date of transaction. All differences on exchange are taken to the profit and loss account.

Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Pensions

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the financial statements

at 31 December 2013

2. Turnover

The turnover is attributable to the principal activities of the company:

	2013	*2012*
	£000	*£000*
Class of Business		
Smokers Requisites and Associated Products	36,161	38,824

Turnover is primarily derived from UK sales.

3. Operating profit

The operating profit is stated after charging/(crediting):

	2013	*2012*
	£000	*£000*
Depreciation - owned assets	194	208
Auditors' remuneration:		
Audit of financial statements	30	30
Operating lease rentals in respect of – plant and machinery	117	103
– other	182	182
Foreign exchange differences	37	(71)
Exceptional item:		
Onerous lease provision (see note 12)	8	(154)

Notes to the financial statements

at 31 December 2013

4. Directors and employees

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

	2013	*2012*
	No.	*No.*
Distribution	37	34
Administration	8	8
	45	42

b. The aggregate payroll costs of these persons were as follows:

	2013	*2012*
	£000	*£000*
Wages and salaries	1,622	1,735
Social security costs	173	181
Pension costs (note 18)	129	130
	1,924	2,046

c. Remuneration of directors

	2013	*2012*
	£000	*£000*
Directors' emoluments	140	155
Company contributions to money purchase pension schemes	14	13
	154	168

Remuneration for certain directors has been borne by a related company. Certain directors are also directors of other companies within the Republic Technologies Group. These directors' services to the Company do not occupy a significant amount of time. As such these directors do not consider that they have received remuneration for incidental services to the company for the year.

5. Interest receivable and similar income

	2013	*2012*
	£000	*£000*
Bank interest	11	17

Notes to the financial statements

at 31 December 2013

6. Tax

The tax charge on the profit on ordinary activities for the year was as follows:

(a) Current tax charge

	2013	*2012*
	£000	*£000*
UK corporation tax	530	1,279
Total current tax charge (see (b) below)	530	1,279
Deferred tax – other (note 6c))	(5)	2
Tax on profit on ordinary activities	525	1,281

(b) Factors affecting the tax charge for the year.

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2013	*2012*
	£000	*£000*
Profit on ordinary activities before tax	2,193	5,159
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	510	1,264
Effects of:		
Expenses not deductible for tax purposes	10	14
Differences between depreciation and capital allowances	10	1
Total current tax charge for the year (note 6a)	530	1,279

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2013	*2012*
	£000	*£000*
Timing differences in respect of accelerated capital allowances	47	52
Included in provision (note 12)	47	52

Notes to the financial statements

at 31 December 2013

6. Tax (continued)

The movement in the deferred tax asset during the year was:

Balance brought forward	52
Deferred tax movement in profit and loss account for the year (note 6a)	(5)
Balance carried forward	47

(d) Factors that may affect future tax charges

On 20 March 2013 the Chancellor announced a further reduction in the main rate of UK Corporation Tax to 21% from 1 April 2014 and to 20% from 1 April 2015 which will unify it with the small company rate of Corporation Tax in the UK. These changes were substantively enacted on 17 July 2013.

A deferred tax asset has not been recognised in respect of unrelieved capital losses. The amount that is not recognised at 31 December 2013, when calculated at the standard rate of corporation tax in the UK of 23% is £1,451,000 (2012 – £1,514,000). The deferred tax asset would be recoverable to the extent that future chargeable gains are generated enabling the capital losses to be relieved.

7. Tangible fixed assets

	Land and Buildings £000	Plant and Machinery £000	Motor Vehicles £000	Total £000
Cost				
At 1 January 2013	1,495	1,628	5	3,128
Additions	-	40	-	40
At 31 December 2013	1,495	1,668	5	3,168
Depreciation:				
At 1 January 2013	23	786	5	814
Charge for the year	23	171	-	194
At 31 December 2013	46	957	5	1,008
Net book value:				
At 31 December 2013	1,449	711	-	2,160
At 31 December 2012	1,472	842	-	2,314

Notes to the financial statements

at 31 December 2013

8. Investments

As at 31 December 2013 the Company owned the beneficial interest in the entire issued share capital of Optinett (UK) Limited and Zig Zag (GB) Ltd, both non-trading companies.

The companies in which the Company's interest at the year end is more than 20% are as follows:

Subsidiary undertaking	Country of incorporation	Principal activity	Original Investment	Provided	Current Investment	Class and percentage of shares held
Optinett (UK) Limited	United Kingdom	Dormant	£2	-	£2	Ordinary Shares 100%
Zig Zag (GB) Limited	United Kingdom	Dormant	£3,878,000	£3,877,999	£1	Ordinary Shares 100%

9. Stocks

	2013	*2012*
	£000	*£000*
Finished goods held for resale	4,220	2,624

10. Debtors

	2013	*2012*
	£000	*£000*
Trade debtors	7,266	7,839
Other debtors	524	285
Prepayments and accrued income	180	133
	7,970	8,257

11. Creditors: amounts falling due within one year

	2013	*2012*
	£000	*£000*
Trade creditors	2,145	2,456
Amounts owed to group undertakings	2,995	1,089
Corporation Tax	190	499
Taxation and social security	450	454
Accruals and deferred income	3,645	3,908
	9,425	8,406

Notes to the financial statements

at 31 December 2013

12. Provisions for liabilities

	Deferred Taxation £000	*Industrial Claims by Former Employees £000*	*Onerous Lease £000*	*Total £000*
At beginning of year	52	285	350	687
Utilised	-	-	(89)	(89)
Charge to the profit and loss account	(5)	-	97	92
	47	285	358	690

The Company has a number of Industrial Injury Claims from ex employees. The Company continues to investigate the issues, has sought legal advice and investigated whether any of the claims are covered by insurance. Whilst the Company believes the claims will not be successful, the combined total cost of claims being successful (including legal fees) could be in the region of £285,000. As part of the Sale Settlement Agreement with the former owners of the Company Swedish Match AB any such costs are to be recharged to them and therefore a debtor of the same amount has been created in the accounts.

The Company has an onerous lease on premises no longer occupied. In the current economic climate and in keeping with the fact that the property has been empty for 74 months as at the balance sheet date the Company has a provision for rent on the premises of 4 years.

13. Dividends

	2013 £000	*2012 £000*
Dividends paid on equity capital	3,000	2000

14. Called up share capital

Allotted, called up and fully paid	***2013 £000***	*2012 £000*
1,200 Ordinary shares @ £1 each	1	1
Shares classified in shareholders' funds	1	1

Notes to the financial statements

at 31 December 2013

15. Movement in reserves

	Profit and loss account *£000*
At 1 January 2013	8,144
Profit for the financial year	1,668
Dividend	(3,000)
At 31 December 2013	6,812

16. Reconciliation of movements in shareholders' funds

	2013 *£000*	*2012* *£000*
Profit for the financial year	1,668	3,878
Opening shareholders' funds	8,145	6,267
Dividend	(3,000)	(2000)
Closing shareholders' funds	6,813	8,145

17. Contingent liabilities

The bank has issued a VAT bond in favour of HM Customs and Excise, which amounted to £50,000 (2012 – £50,000) with full recourse to the Company.

18. Pension obligations

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £129,000 (2012 – £130,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

19. Financial commitments

At 31 December 2013 the Company had annual commitments under non cancellable operating leases as set out below:

	Land and Buildings 2013 £000	*Land and Buildings 2012 £000*	***Other 2013 £000***	*Other 2012 £000*
Operating leases which expire:				
Within one year	-	-	5	6
Two to five years	-	-	112	57
More than five years	182	182	-	–
	182	182	117	63

Notes to the financial statements

at 31 December 2013

20. Ultimate parent undertaking and controlling party

Republic Technologies International SAS incorporated in France, is the parent undertaking of the smallest group of which the Company is a member. Copies of the consolidated accounts of Republic Technologies International SAS are available upon request from:

Republic Technologies International SAS
3750 Avenue Julien Panchot
BP 424, 66004 Perpignan
CEDEX
France

The directors consider that the Company's ultimate parent undertaking and controlling party is RTNA LLC incorporated in the United States of America.