

**Company Registration No. SC006195**

**TULLIS RUSSELL PAPERMAKERS LIMITED**

**Report and Financial Statements**

**31 March 2005**



# **TULLIS RUSSELL PAPERMAKERS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS**

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# **TULLIS RUSSELL PAPERMAKERS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

F A W Bowden  
D C Munro  
C A G Parr  
M M Sinclair  
N J Fedo  
N Shepherd

#### **SECRETARY**

G D Miller

#### **REGISTERED OFFICE**

Rothesfield  
Markinch  
Glenrothes  
Fife

#### **BANKERS**

The Royal Bank of Scotland plc  
18 Crossgate  
Cupar  
Fife  
KY15 5HL

#### **SOLICITORS**

Dundas & Wilson CS  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EN

#### **AUDITORS**

Deloitte & Touche LLP  
Edinburgh

# TULLIS RUSSELL PAPERMAKERS LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

### ACTIVITIES

The company's principal activity is the manufacture and coating of high printing grades of paper and board. It operates in the UK and through overseas branches in France, Germany, Benelux and the USA.

### REVIEW OF DEVELOPMENTS

The trading performance was excellent considering the difficult market conditions.

The loss on the ordinary activities before taxation was £7,201,000 after writing off group loans of £9,397,000 (2004 restated: profit £872,000). The taxation charge was £1,526,000 (2004 restated: £702,000), leaving a loss after taxation of £8,727,000 (2004 restated: profit £170,000). Cash balances decreased by £7,569,000 during the year.

### DIVIDENDS

The dividend paid during the year was £900,000 (2004: £541,000).

### DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. All directors served throughout the year with the exception of Gail Ellis who resigned on the 31 March 2005. None of the directors had any interest in the shares of the company at 31 March 2005 or 1 April 2004. Directors' interests in the share capital of the parent undertaking were as follows:

	At 31 March 2005 Ord shares of 10p each	At 31 March 2004 Ord shares of 10p each
M M Sinclair	22,898	22,450
N Shepherd	24,902	21,894
N J Fedo	16,063	11,615
	<hr/>	<hr/>
	63,863	55,959
	<hr/>	<hr/>

FAW Bowden, DC Munro and CAG Parr are also directors of the parent undertaking Tullis Russell Group Limited. Their interests in the shares of the parent company are disclosed in the parent company's accounts.

### EMPLOYEE INVOLVEMENT

Employee involvement is central to the management approach of the group. Systems operate in each of the group's businesses to provide all employees with information of concern to them, including information regarding financial and economic conditions affecting the group and its business and the results achieved. Principal communication methods used are monthly team briefings, the issue of a quarterly magazine, the distribution of annual financial information and annual reporting meetings.

Employees are encouraged to participate fully in the performance of their place of work. There is commitment to total quality management. There are cash bonuses, under which employees participate in the profits of their place of work. The amount charged in respect of the schemes to 31 March 2005 was £811,000 (2004: £828,000). All employees with qualifying service share in the group's profits, receiving free shares under the Share Incentive Plan ("SIP"). Employees also have the opportunity to purchase Partnership Shares and receive Matching Shares under the SIP. In respect of the year ended 2005 £225,000 (2004: £304,000) has been charged against profits to buy shares.

Consulting with employee representatives take place at group and company level. Representative bodies include: the Share Council, Works Councils, Management Safety Policy Committees, Trade Unions and the Staff Association.

# **TULLIS RUSSELL PAPERMAKERS LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **DISABLED EMPLOYEES**

The company complies with the requirements of the Disability Discrimination Act 1996. The company policy is to give full and fair consideration to applications for employment by disabled persons having regard to their particular aptitudes and abilities. In the event of members of staff becoming disabled, the company policy is to continue their employment and arrange for appropriate training where suitable positions exist. Disabled employees have the same training, career development and promotion opportunities as all other employees.

### **CHARITABLE DONATIONS**

Donations to charitable organisations amounted to £16,000 (2004: £9,000).

### **SUPPLIER PAYMENT POLICY**

The company's policy is to pay suppliers within agreed payment terms. The policy is known to the staff who handle payments to suppliers.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year ended 31 March 2005 and the amounts owed to its trade creditors at the end of the year was 82 days (2004 – 74 days).

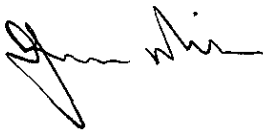
### **AUDITORS**

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

### **APPROVAL OF ACCOUNTS**

The accounts were approved by the Board of the Directors on 25 May 2005 and were signed on behalf of the directors by D C Munro and C A G Parr on that date.

Approved by the Board of Directors  
and signed by order of the Board



GD Miller  
Secretary

25 May 2005

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TULLIS RUSSELL PAPERMAKERS LIMITED**

We have audited the financial statements of Tullis Russell Papermakers Limited for the year ended 31 March 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet, and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Edinburgh  
26 May 2005

# TULLIS RUSSELL PAPERMAKERS LIMITED

## PROFIT AND LOSS ACCOUNT For the year ended 31 March 2005

	Note	2005 £'000	2004 Restated* £'000
<b>TURNOVER: continuing operations</b>	2	104,995	109,239
Cost of sales		(82,316)	(85,202)
Gross profit		22,679	24,037
Distribution costs		(14,661)	(15,163)
Write off of intra-group loan balances		(9,397)	-
Other administrative expenses		(5,321)	(7,451)
Total administration expenses		(14,718)	(7,451)
<b>OPERATING (LOSS)/PROFIT: continuing operations</b>	4	(6,700)	1,423
Net interest payable	5	(501)	(551)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(7,201)	872
Tax on (loss)/profit on ordinary activities	6	(1,526)	(702)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(8,727)	170
Dividends	7	(900)	(541)
<b>RETAINED LOSS FOR THE YEAR</b>	16	(9,627)	(371)

\*The profit and loss account for the year ended 31 March 2004 has been restated to reflect the adoption of FRS 17 (see note 13).

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year ended 31 March 2005

	2005 £'000	2004 Restated £'000
(Loss)/profit for the financial year	(8,727)	(599)
Total recognised gains and losses relating to the year	(8,727)	(599)
Prior year adjustment (see note 13)	817	
Total gains and losses recognised since last annual report and financial statements	(7,910)	



# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 March 2005

	Note	2005 £'000	2004 Restated* £'000
Reported (loss)/profit on ordinary activities before taxation		(7,201)	872
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	16	179	510
Historical cost (loss)/profit on ordinary activities before taxation		<u>(7,022)</u>	<u>1,382</u>
Historical cost (loss)/profit retained after taxation and dividends		<u>(9,448)</u>	<u>(630)</u>

\*The profit on ordinary activities before taxation for the year ending 31 March 2004 has been restated for the adoption of FRS 17 "Retirement Benefits" (see note 13).

# TULLIS RUSSELL PAPERMAKERS LIMITED

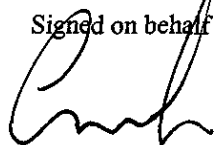
## BALANCE SHEET 31 March 2005

	Note	2005 £'000	2004 Restated* £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	39,884	41,082
<b>CURRENT ASSETS</b>			
Stocks	9	12,013	11,418
Debtors	10	17,990	16,690
Cash at bank and in hand		5,530	13,099
		35,533	41,207
<b>CREDITORS: amounts falling due within one year</b>	11	(25,167)	(22,592)
<b>NET CURRENT ASSETS</b>		10,366	18,615
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		50,250	59,697
<b>CREDITORS: amounts falling due after more than one year</b>			
Obligations under finance leases	12	(52)	(327)
Deferred tax	14	(6,027)	(5,307)
		(6,079)	(5,634)
<b>ACCRUALS AND DEFERRED INCOME</b>			
Deferred government grants		(1,765)	(2,030)
<b>NET ASSETS</b>		42,406	52,033
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	5,449	5,449
Share premium account	16	876	876
Revaluation reserve	16	5,912	6,091
Profit and loss account	16	30,169	39,617
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	17	42,406	52,033

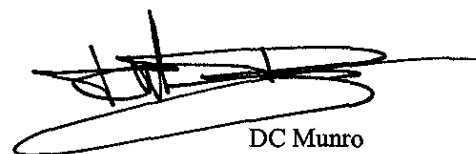
\*The balance sheet at 31 March 2004 has been restated to reflect the adoption of FRS 17 "Retirement Benefits" (see note 13).

These financial statements were approved by the Board of Directors on 25 May 2005.

Signed on behalf of the Board of Directors



CAG Parr  
Director



DC Munro  
Director

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding financial year, with the exception of the adoption of FRS 17 "Retirement Benefits".

#### Accounting convention

The accounts are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards.

#### Cash flow statement

As permitted by FRS 1, a cash flow statement is not included because the company is a wholly owned subsidiary undertaking of a parent undertaking which produces group accounts including a consolidated cash flow statement.

#### Government Grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit and loss account over the expected useful lives of the relevant assets by equal annual instalments.

#### Leased assets

Assets held under finance leases and hire purchase agreements are capitalised as tangible fixed assets at fair value and are depreciated on the same basis as owned assets. The obligation for lease and capital payments less finance charges allocated to future periods is included in creditors. Finance charges for each contract are charged to profit and loss account on a basis which reflects the owner's estimated net cash investment in the contract.

Rentals paid under operating leases are charged to profit and loss account in accordance with the terms of the relevant lease agreements.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of any depreciation and provision for impairment.

Depreciation is provided on all tangible fixed assets other than land and assets in the course of construction, at rates calculated to write off the cost or valuation, less estimated realisable value, of each asset over its expected useful life.

The range of anticipated lives of the assets is :

Heritable buildings	-	50 years
Plant and equipment	-	4 to 20 years

The company assets were revalued in June 1994 and have not been updated since. Transitional arrangements for FRS15 are being adopted and the company is not continuing the revaluation policy in relation to these assets.

#### Stocks

Stocks (including work in progress) are valued at the lower of cost and estimated net realisable value on a first-in, first-out basis. The cost of stocks comprises direct materials and related costs of conversion being direct labour and production overheads.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items as appropriate.

#### Turnover

Turnover comprises sales, excluding value added tax.

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Taxation

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or at the rate used to hedge the balances, if different. These transaction differences are dealt with in the profit and loss account.

#### Pension costs

The principal group pension scheme encompasses both a defined benefit section for service up to 5 April 2002 and a defined contribution section for service from 6 April 2002. The company has adopted FRS 17 "Retirement Benefits" in the current year. The group defined benefit section of the scheme is a multi-employer scheme such that Tullis Russell Papermakers Limited cannot separately identify its share of the underlying assets and liabilities of the scheme. Accordingly the company accounts for the scheme as if it were a defined contribution scheme.

The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Prior to the adoption of the FRS 17, the company accounted for the defined benefit element of the scheme in line with SSAP 24. Whereby the defined benefit section was valued every three years by a professionally qualified independent actuary and any variations from regular cost arising from the actuarial valuations were charged to the profit and loss account over the average remaining service lives of its active members, following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the scheme was included as an asset or liability in the balance sheet.

Company contributions relating to the defined contribution section are charged to the profit and loss account in the period they are incurred.

### 2. TURNOVER

	2005 £'000	2004 £'000
Turnover by destination:		
United Kingdom	52,410	54,166
Europe	39,054	40,109
North America	5,829	6,796
Asia	4,450	4,585
Other	3,252	3,583
	<u>104,995</u>	<u>109,239</u>

All turnover originates from manufacturing in the U.K.

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 March 2005

### 3. STAFF COSTS

	2005 £'000	2004 Restated £'000
Wages and salaries	15,368	13,939
Social security costs	1,561	1,480
Other pension costs (note 13)	1,368	2,001
	<u>18,297</u>	<u>17,420</u>

The average monthly number of employees during the year was made up as follows:-

	2005 No	2004 No
Management and administration	42	44
Manufacturing and production	480	476
Distribution	70	74
	<u>592</u>	<u>594</u>

	2005 £'000	2004 £'000
<b>Directors' remuneration:</b>		
Remuneration	872	627
Pension contributions	100	101
	<u>972</u>	<u>728</u>
 Remuneration of highest paid director:		
Remuneration	227	171
Pension accrued	42	37
	<u>269</u>	<u>208</u>

All directors are members of the Long Term Incentive Plan which was approved at the 2002 Annual General Meeting as part of the remuneration policy. The first payments under the plan were paid in the year ending 31 March 2005 and were based on the financial performance of the company in the three years to March 2004. These payments are included within directors emoluments above.

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 4. OPERATING PROFIT

	2005 £'000	2004 £'000
<b>Operating profit is after charging/(crediting):</b>		
Depreciation and amortisation		
Owned assets	4,231	4,706
Leased assets	203	236
Rentals under operating leases		
Plant and machinery	593	562
Land and Buildings	528	529
Government grant release	(265)	(265)
Directors remuneration (note 3)	972	728
Loss on foreign currency exchange	841	2,286
Auditors' remuneration		
audit fees	28	32
other services	11	18
Impairment of fixed asset	-	335
Provision for fixed asset decommissioning	-	148
	<hr/>	<hr/>

### 5. NET INTEREST PAYABLE

	2005 £'000	2004 £'000
Bank interest payable	121	219
Finance charges payable under finance leases	25	25
Interest on loan from parent undertaking	872	644
Bank interest receivable	(517)	(337)
	<hr/>	<hr/>
	501	551
	<hr/>	<hr/>

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 March 2005

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 £'000	2004 Restated £'000
<i>Current taxation</i>		
UK corporation tax charge for the period	836	883
Adjustment in respect of prior years	(29)	127
Overseas tax	-	5
	<hr/>	<hr/>
Total current tax	807	1,015
<i>Deferred taxation</i>		
Origination and reversal of timing differences	(58)	(190)
Adjustment in respect of prior years	777	(123)
	<hr/>	<hr/>
	1,526	702
	<hr/>	<hr/>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year exceeds the standard rate for the reasons set out in the following reconciliation.

	2005 £'000	2004 £'000
(Loss)/profit on ordinary activities before tax	(7,201)	872
	<hr/>	<hr/>
Tax on profit on ordinary activities at standard rate	(2,160)	262
<i>Factors affecting the charge for the period:</i>		
Expenses not deductible for tax purposes	120	431
Capital allowances in excess of depreciation	181	324
Other deferred tax movements – losses and provisions	(124)	(134)
Adjustments to tax in respect of prior periods	(29)	127
Overseas tax	-	5
Non deductible loan waiver	2,819	-
	<hr/>	<hr/>
Total actual amount of current tax	807	1,015
	<hr/>	<hr/>

### 7. DIVIDENDS

	2005 £'000	2004 £'000
<i>Equity dividends</i>		
Final proposed – 1.6p per ordinary share (31 March 2004 - 1.0p)	900	541
	<hr/>	<hr/>

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 March 2005

### 8. TANGIBLE FIXED ASSETS

	Land & buildings	Plant and equipment		Assets in course of construction	Total
	£'000	Owned £'000	Leased £'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 April 2004	15,552	56,122	3,771	29	75,474
Additions	-	2,842	-	468	3,310
Commissioned	-	29	-	(29)	-
Transfer	-	2,310	(2,310)	-	-
Disposals	(211)	(1,343)	-	-	(1,554)
At 31 March 2005	15,341	59,960	1,461	468	77,230
<b>Depreciation</b>					
At 1 April 2004	3,349	29,429	1,614	-	34,392
Charge for the year	308	3,923	203	-	4,434
Transfer	-	1,185	(1,185)	-	-
Disposals	(206)	(1,274)	-	-	(1,480)
At 31 March 2005	3,451	33,263	632	-	37,346
<b>Net book value</b>					
At 31 March 2005	11,890	26,697	829	468	39,884
<b>Net book value</b>					
At 31 March 2004	12,203	26,693	2,157	29	41,082

The net book value of the company's assets includes £814,000 (2004: £982,000) held under finance leases and hire purchase contracts.

The Company's tangible fixed assets were revalued as at 30 June 1994 on the basis of open market value for the existing use and the values incorporated in the books at that date. Assets acquired subsequently have been included at original historic cost.

Had the assets not been valued, the amounts at 31 March 2005 would have been:-

	£'000	£'000	£'000	£'000	£'000
Historical cost	10,768	90,656	4,607	468	106,499
Depreciation	(3,988)	(64,777)	(3,762)	-	(72,527)
Historical cost net book value	6,780	25,879	845	468	33,972
Historical cost depreciation charge for the year	202	3,664	289	-	4,155



# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 March 2005

### 9. STOCKS

	2005 £'000	2004 £'000
Raw materials	3,093	3,898
Work in progress	2,573	1,807
Finished goods	6,347	5,713
	<u>12,013</u>	<u>11,418</u>

### 10. DEBTORS

	2005 £'000	2004 £'000
Trade debtors	15,795	14,956
Amounts owed by group undertakings	647	894
Other debtors	278	342
Prepayments and accrued income	351	498
Corporation tax receivable	332	-
VAT	587	-
	<u>17,990</u>	<u>16,690</u>

### 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	2004 £'000
Trade creditors	18,595	17,053
Obligations under finance leases	275	275
Other taxes and social security	479	613
Other creditors	4,337	3,429
Accruals and deferred income	932	805
Corporation tax payable	-	417
Group relief	549	-
	<u>25,167</u>	<u>22,592</u>

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 12. OBLIGATIONS UNDER LEASE CONTRACTS

	2005 £'000	2004 £'000
Finance leases		
Amounts payable:		
Within one year	275	275
In the second to fifth years inclusive	52	327
	<u>327</u>	<u>602</u>

	2005		2004	
	Land & Buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	112	-	98
In the second to fifth years inclusive	-	430	-	444
After five years	513	2	515	17
	<u>513</u>	<u>544</u>	<u>515</u>	<u>559</u>

Obligations under finance leases and hire purchase agreements are secured over the assets to which they relate.

### 13. PENSION COMMITMENTS

Eligible employees of the company are members of The Tullis Russell Pension Scheme and particulars of the actuarial valuation of the scheme are contained in the accounts of Tullis Russell Group Limited.

The group operates one principal pension scheme in the UK which provides defined benefits for service earned before 6 April 2002 and defined contribution for service from 6 April 2002.

The assets of the scheme are held separately from those of the group and are invested by trustees in pooled managed funds. Contributions to the scheme are determined by a qualified actuary, using the Attained Age Method.

The most recent valuation was made at 6 April 2004. The assumptions relating to the return on investments, the rates of increase in salaries, the rates of revaluation (which are in line with those applying to the State Earnings Related Pension Scheme) and rates of increase in pensions, have the most significant effect on the results of the valuations. It was assumed that the return on investments would exceed the other relevant rates of increase by the following margins: Pensionable pay 0.75%; Revaluations 1.25%; Pensions 2.25%. According to the 2004 actuarial valuation, the market value of the assets of the scheme was £73m. In addition, the trustees of the scheme are entitled to receive pensions on an insured basis for certain retired members.

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 13. PENSION COMMITMENTS (CONTINUED)

#### Prior year adjustment

The company has adopted FRS17 Retirement Benefits in these financial statements. This has resulted in a restatement of the prior year profit and loss account to reverse the charge and the liability under the previous pension standard, SSAP 24, and to adopt FRS 17.

The effects of the change in policy are summarised below:

	2004 £'000
<b>Profit and loss account</b>	
Increase in administrative expenses	(1,398)
Decrease in the tax charge	420
	<hr/>
Decrease in (loss)/profit for the financial year	(978)
	<hr/>
<b>Balance sheet</b>	
Reduction in pension liability	1,167
Increase in the deferred tax liability	(350)
	<hr/>
Increase in net assets	817
	<hr/>

#### FRS 17

The group scheme is such that the company, Tullis Russell Papermakers Limited, cannot separately identify its share of the underlying assets and liabilities of the scheme and accordingly under FRS 17 accounts for the scheme as if it were a defined contribution scheme.

The current year profit and loss account pension charge is £1,368,000. The impact of adopting FRS 17 on the current year profit and loss account, is a reduction in profit before tax of £600,000.

Within the parent company's consolidated accounts (Tullis Russell Group Limited) a FRS 17 deficit of £16,085,000 (2004: £17,159,000) net of deferred tax, is disclosed.

As stated in the Tullis Russell Group Limited financial statements for the year ended 31 March 2005, the most recent actuarial valuation was made at 31 March 2004 by a qualified actuary. The following information has been extracted directly from the Group financial statements.

The major assumptions used by the actuary were:	At 31 March 2005	At 31 March 2004	At 31 March 2003
Rate of increase in salaries (excluding promotions)	4.0%	4.0%	3.9%
Rate of increase in national annual earnings	4.0%	4.0%	3.9%
Rate of increase in deferred pensions	3.0%	3.0%	2.4%
Rate of increase in pensions in payment	3.0%	3.0%	2.4%
Discount rate	5.4%	5.5%	5.4%
Inflation assumption	3.0%	3.0%	2.4%

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 13. PENSION COMMITMENTS (CONTINUED)

The fair value of the assets in the scheme, the present value of liabilities in the scheme and the expected rates of return at each balance sheet date were:

	2005		2004		2003	
	Long-term Rate of Return Expected	Fair Value £000	Long-term Rate of Return Expected	Fair Value £000	Long-term Rate of Return Expected	Fair Value £000
Equities	8.5%	35,410	8.5%	31,330	8.75%	23,893
Bonds	5.0%	40,659	5.0%	39,258	5.0%	38,987
Property	7.5%	1,981	7.5%	1,662	8.0%	1,466
Cash	4.0%	518	4.0%	3	5.0%	186
Defined contribution assets		5,855		3,535		1,328
		<hr/>		<hr/>		<hr/>
Total fair value of assets		84,423		75,788		65,860
Present value of scheme liabilities		(107,401)		(100,301)		(90,981)
		<hr/>		<hr/>		<hr/>
Deficit in scheme		(22,978)		(24,513)		(25,121)
Related deferred tax asset		6,893		7,354		7,536
		<hr/>		<hr/>		<hr/>
Net pension liability		(16,085)		(17,159)		(17,585)
		<hr/>		<hr/>		<hr/>

The cash contributions payable into the defined benefit section of the pension scheme are governed by the scheme actuary's determination of the ongoing funding position of the scheme. This funding position is underpinned by the Minimum Funding Requirement (MFR). The MFR funding level calculation is quite different to the FRS 17 calculation. The MFR position is determined using a prescribed set of assumptions which are different to the market based assumptions prescribed and used under FRS 17. MFR regulations require that where the MFR funding level (ratio of assets to liabilities) is below 100%, the company must make up any shortfall by way of payments into the pension scheme within certain prescribed timescales.

The MFR funding level of the Tullis Russell Pension Scheme was formally calculated at April 2004. The scheme actuary's assessment of the MFR funding level was a figure of 91% meaning that there is a shortfall in the funding of the scheme on an MFR basis. As a result, the group has agreed to make additional annual cash payments of £2,000,000 into the pension scheme for the next 15 years. The continued adequacy of these contributions will be reassessed each year.

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 March 2005

### 14. PROVISION FOR LIABILITIES AND CHARGES

	<b>Deferred Taxation - Restated £'000</b>
Balance at 1 April 2004	5,307
Adjustment in respect of prior year	777
Current year credit	(57)
	<hr/>
Balance at 31 March 2005	6,027
	<hr/>

	<b>2005 £'000</b>	<b>2004 £'000</b>
<b>Deferred taxation</b>		
Provision for deferred taxation consists of the following amounts:		
Capital allowances in excess of depreciation	5,575	5,962
Other timing differences	452	(655)
	<hr/>	<hr/>
	6,027	5,307
	<hr/>	<hr/>

### 15. CALLED UP SHARE CAPITAL

	<b>2005 £'000</b>	<b>2004 £'000</b>
<b>Authorised</b>		
54,691,000 ordinary shares of 10p each	5,469	5,469
	<hr/>	<hr/>
<b>Called up, allotted and fully paid</b>		
54,490,000 ordinary shares of 10 each	5,449	5,449
	<hr/>	<hr/>

### 16. STATEMENT OF RESERVES

	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Revaluation reserve £'000</b>	<b>Total £'000</b>
At 1 April – as previously reported	876	38,800	6,091	45,767
Prior year adjustment	-	817	-	817
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2004 - as restated	876	39,617	6,091	46,584
Retained loss for the year		(9,627)		(9,627)
Transfer of amount equivalent to additional depreciation on revalued assets		179	(179)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	876	30,169	5,912	36,957
	<hr/>	<hr/>	<hr/>	<hr/>

# TULLIS RUSSELL PAPERMAKERS LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 March 2005

### 17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Opening shareholders' funds – as previously reported	51,216	50,608
Prior year adjustment	817	1,796
Shareholders' funds at 1 April – as restated	52,033	52,404
(Loss)/profit for the year	(8,727)	170
Dividend	(900)	(541)
Net reduction to shareholders' funds	(9,627)	(371)
Shareholders' funds at 31 March	42,406	52,033

### 18. CAPITAL COMMITMENTS

	2005 £'000	2004 £'000
Contracted	301	247
Committed	3,773	3,867

### 19. CONTINGENT LIABILITIES AND GUARANTEES

Contingent liabilities and guarantees not provided.

	2005 £'000	2004 £'000
Guarantees and indemnities		
Bank borrowings – extent utilised at 31 March – group undertaking	-	244

The maximum bank borrowings guaranteed by the company relating to group borrowings amounted to £18,656,000 (2004: £19,642,000).

### 20. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of Tullis Russell Group Limited and has therefore taken advantage of the exemption permitted by FRS8 'Related Party Disclosures', with regard to the disclosure of Related Party transactions with other group companies.

### 21. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking and ultimate controlling party is Tullis Russell Group Limited. This is the only group of undertakings of which the company is a member. Copies of the accounts of Tullis Russell Group Limited may be obtained from Companies House, 37 Castle Terrace, Edinburgh.