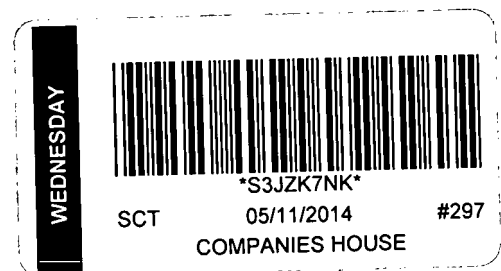


TULLIS RUSSELL PAPERMAKERS LIMITED

Report and Financial Statements

31 March 2014



TULLIS RUSSELL PAPERMAKERS LIMITED

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TULLIS RUSSELL PAPERMAKERS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

F A W Bowden
C A G Parr
M M Sinclair
N Shepherd
G D Miller
M Steadman

SECRETARY

G D Miller

REGISTERED OFFICE

Rothsfield
Markinch
Glenrothes
Fife
KY7 6PB

BANKERS

Lloyds Banking Group plc
Level 3 Floor 2 Block C
69 Morrison Street
Edinburgh
EH3 8BW

SOLICITORS

CMS Cameron McKenna LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

STATUTORY AUDITOR

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

TULLIS RUSSELL PAPERMAKERS LIMITED

STRATEGIC REPORT

PRINCIPAL 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, Spain, China and the USA.

BUSINESS AND FINANCIAL REVIEW

The financial results of the business improved during the year although margins remain under pressure this year due to oversupply in our core markets. Pulp prices remained high although we did see reductions later in the year.

Energy costs continued to rise through the first half of the year although we started to see the benefits from the Biomass in the last financial quarter as the full long term energy supply contract commenced from the 1 March 2014.

The operating loss of £3,888,000 was after the write back of an inter group balance with a non-trading subsidiary of £1,042,000 and exceptional operating costs of £949,000 associated primarily with the outsourcing of our warehousing and distribution processes during the year. This business also benefited from the transfer of fixed assets to Tullis Russell Group, which generated a gain of £1,157,000.

The gross margin percentage was 14.3% (2013: 15.3%). Return on Capital Employed was negative 52.8% (2013: negative 50.6%). Return on Sales was negative 2.7% (2013: negative 3.9%).

There was a significant cash inflow in 2014 resulting in a positive bank and cash balance at 31 March 2014.

SUPPLIER PAYMENT POLICY

The Company's policy is to pay suppliers within agreed payment terms. The employees who are responsible for the administration of payments are fully aware of the Company policy. The ratio, expressed in days, between the amounts invoiced to the Company by its suppliers in the year ended 31 March 2014 and the amounts owed to its trade creditors at the end of the year was 64 days (2013: 67 days).

RISK MANAGEMENT OBJECTIVES AND POLICIES

Key Business Risks

The main risks the Company is exposed to are weak markets for our products, pulp and energy costs and foreign currency exposures.

Energy costs have historically been a burden to the Group and we have addressed this exposure by entering a 20 year Energy Supply Agreement with RWE Npower who have built a 62MW Biomass plant at the Markinch site. Within the terms of the agreement Tullis Russell will be supplied with all its electricity and steam requirements from the power plant which is owned and operated by RWE Npower. This arrangement is facilitated by a long-term lease which we have granted to RWE Npower. The plant became operational during the year and we were able to enjoy reduced energy costs through the commissioning process. The Energy Supply Contract formally commenced on 1 March 2014 bringing with it further ongoing energy cost reductions.

Financial instruments

The Company trades significantly outside the UK and as such is exposed to movements in exchange rates. The currency risk is managed by entering into forward contracts over the twelve months for key foreign currencies, which will provide certainty over a significant proportion of these exposures. The Company does not enter into any speculative financial instruments.

The Company's principal financial assets are bank balances and trade debtors. The Company manages its credit risk in relation to trade debtors by spreading exposure over a large number of customers and holding credit insurance in respect of trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The credit risk on liquid funds is limited because the counter parties are UK banks.

RESEARCH AND DEVELOPMENT

The Company is committed to research and development, dedicated both to improving the quality of existing products and processes and the design of new ones.

TULLIS RUSSELL PAPERMAKERS LIMITED

STRATEGIC REPORT (CONTINUED)

ENVIRONMENTAL

It is the Company's objective to continually improve the environment for its workforce and the local communities in which it operates. Implicit within that objective is to continually work towards reducing any practice or elements of the manufacturing process that would have a negative impact on the environment.

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 regular 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 2014 was £270,000 (2013: £250,000). All employees with qualifying service share in the group's profits by receiving free shares under the Share Incentive Plan ("SIP"). Employees also have the opportunity to purchase Partnership Shares and where approved by the Board, receive Matching Shares under the SIP. In respect of the year ended 31 March 2014 £150,000 (2013: £150,000) has been charged against profits in respect of these share arrangements.

Consulting with employee representatives takes place at group and company level. Representative bodies include: the Employee Ownership Board, Health & Safety Steering Group, Trade Unions, and the Staff Association.

Disabled Employees

The Company complies with the requirements of the Disability Discrimination Act 1995. 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.

FUTURE OUTLOOK

Conditions remain challenging although the external commercial environment is starting to show signs of improvement and the business has won several large pieces of new business over the second half of last year. The commencement of the contract with RWE will also have a substantial positive impact on the short, medium and long term results of the business.

GOING CONCERN

The directors have considered the current trading position of the business along with the prevailing economic conditions and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Approved by the Board of Directors and signed on behalf of the Board on 29 May 2014.



G D Miller

Secretary

29 May 2014

TULLIS RUSSELL PAPERMAKERS LIMITED

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 31 March 2014.

RESULTS AND DIVIDENDS

The loss on the ordinary activities before taxation was £3,409,000 (2013: £5,062,000). The taxation credit was £1,683,000 (2013: £1,022,000), leaving a loss after taxation of £1,726,000 (2013: £4,040,000). There were no dividends paid in the year (2013: no dividend paid).

POLITICAL AND CHARITABLE CONTRIBUTIONS

Donations to charitable organisations amounted to £nil (2013: £nil). There were no political donations in either year.

DIRECTORS' AND OFFICERS' LIABILITY

Directors' and officers' liability insurance has been in place throughout the year to 31 March 2014 and this remains in place as at the date of approving the directors' report.

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. The current directors and those who served during the year were:

F A W Bowden	C A G Parr	N J Fedo (Resigned 28 February 2014)	S J Moss (Resigned 19 April 2013)
G D Miller	M M Sinclair	N Shepherd	M Steadman

F A W Bowden, C A G Parr and G D Miller are also directors of the parent undertaking Tullis Russell Group Limited.

DISCLOSURE OF INFORMATION TO THE AUDITOR

In the case of each director in office at the date the directors' report is approved, that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.


This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

AUDITOR

The auditor is appointed by the shareholders at each Annual General Meeting to act until the conclusion of the following Annual General Meeting. The responsibilities of the auditors are set out in their audit report on page 6. PricewaterhouseCoopers LLP resigned as auditor on 20 December 2013 and Deloitte LLP were appointed as auditor on 21 December 2013. A resolution concerning their re-appointment and remuneration will be proposed at the forthcoming Annual General Meeting.

The financial statements on pages 8 to 24 were approved by the Board of Directors and signed by order of the Board.

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



G D Miller
Secretary

29 May 2014

Company Registration No. SC006195

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual 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 elected to prepare 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; 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 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.

INDEPENDENT AUDITOR'S 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 2014 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, the Statement of Accounting Policies and the related notes 1 to 21. 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 and for no other purpose. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, 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.

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 annual 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 as at 31 March 2014 and of its loss 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

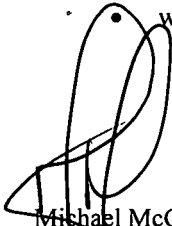
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TULLIS RUSSELL PAPERMAKERS 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 not received all the information and explanations we require for our audit.



Michael McGregor ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh

30 May 2014

TULLIS RUSSELL PAPERMAKERS LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 31 March 2014

	Note	2014 £000	2013 £000
TURNOVER	1	124,610	128,617
Cost of sales		(106,766)	(108,980)
Gross profit		17,844	19,637
Distribution costs		(18,655)	(19,320)
Administrative expenses		(2,128)	(4,530)
Operating loss before exceptional expenses	3	(2,939)	(4,213)
Exceptional operating expenses	3	(949)	(169)
OPERATING LOSS	3	(3,888)	(4,382)
Gain on sale of tangible fixed assets		1,157	-
Finance charges (net)	4	(678)	(680)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,409)	(5,062)
Tax on loss on ordinary activities	5	1,683	1,022
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	15	(1,726)	(4,040)

The results for the current year and the prior year are derived wholly from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year ended 31 March 2014

	Note		
Loss for the financial year		(1,726)	(4,040)
Actuarial gain relating to the pension scheme	13	543	1,445
Movement on deferred tax relating to pension liability		(125)	(358)
Total recognised losses related to the year		(1,308)	(2,953)

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES For the year ended 31 March 2014

	Note	2014 £000	2013 £000
Reported loss on ordinary activities before taxation		(3,409)	(5,062)
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	15	87	12
Historical cost loss on ordinary activities before taxation		<u>(3,322)</u>	<u>(5,050)</u>
Historical cost loss retained after taxation		<u>(1,639)</u>	<u>(4,028)</u>

TULLIS RUSSELL PAPERMAKERS LIMITED

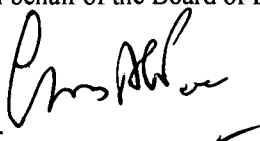
BALANCE SHEET As at 31 March 2014

	Note	2014 £000	2013 £000
FIXED ASSETS			
Tangible assets	6	8,934	21,063
CURRENT ASSETS			
Stocks	7	13,771	18,808
Debtors	8	17,274	15,453
Cash at bank and in hand		1,058	5
		32,103	34,266
CREDITORS: amounts falling due within one year	9	(31,288)	(43,605)
NET CURRENT ASSETS/(LIABILITIES)		815	(9,339)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,749	11,724
CREDITORS: amounts falling due after more than one year	10	(2,364)	(2,564)
NET ASSETS EXCLUDING PENSION LIABILITY		7,385	9,160
PENSION LIABILITY	13	(25)	(492)
NET ASSETS		7,360	8,668
CAPITAL AND RESERVES			
Called up share capital	14	5,449	5,449
Share premium account	15	876	876
Revaluation reserve	15	-	3,798
Profit and loss account	15	1,035	(1,455)
TOTAL SHAREHOLDERS' FUNDS	16	7,360	8,668

These financial statements were approved by the Board of Directors on 29 May 2014.

Signed on behalf of the Board of Directors

CAG Parr
Director



GD Miller
Director



Company Registration No. SC006195

TULLIS RUSSELL PAPERMAKERS LIMITED

STATEMENT OF ACCOUNTING POLICIES

Year Ended 31 March 2014

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding financial year.

Accounting convention

The accounts are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. The Company maintains a 52 week fiscal year ending on the Saturday nearest to 31 March in each year. In the fiscal year 2014, this date was 29 March 2014. For convenience purposes, the Company continues to date its financial statements 31 March.

Going concern

The directors have considered the current trading position of the business along with the prevailing economic conditions and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Cash flow statement

As permitted by FRS 1 (revised 1996), a cash flow statement is not included because the Company is a wholly owned subsidiary undertaking of a parent undertaking which produces publicly available 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 the profit and loss account on a straight-line basis over the expected useful lives of the relevant assets.

Leased assets

The fair value of assets acquired under finance leases and hire purchase contracts is included in Tangible Fixed Assets and is depreciated over the shorter of the lease term and economic life. The obligations for lease payments, less finance charges allocated to future periods, are included in creditors. Finance charges for each contract are charged to the profit and loss account on a basis which reflects the lessor's estimated net cash investment in the contract.

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

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of any depreciation and provision for impairment. Depreciation, calculated on cost or valuation less estimated residual value, is provided on a straight-line basis on all tangible fixed assets, other than land and assets in the course of construction, over the anticipated useful lives of the relevant assets from the date of acquisition (or commissioning if later).

The range of anticipated lives of the assets is:

Freehold buildings	-	50 years
Plant and equipment	-	4-25 years

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. 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.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Year Ended 31 March 2014

Turnover and revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. The Company recognises revenue at the point at which goods are despatched, as the risk has been transferred at that point and it is probable that future economic benefits will flow to the entity. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Current and Deferred 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 substantively 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

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate.

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.

For the defined benefit section the amounts charged to operating result are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount within interest payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit section is funded, with the assets held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet. For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution 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.

Research and development

Research and development expenditure is charged to profit and loss account in the year in which it is incurred.

Financial instruments and derivatives

The Company uses forward foreign currency contracts to minimise the financial risk attaching to future sales of finished goods or purchases of raw materials, services or capital equipment denominated in foreign currencies. Gains and losses on these contracts are deferred and realised when the underlying transactions are recognised in the financial statements.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Year Ended 31 March 2014

Share based payments

The Company has a share compensation scheme, the Share Incentive Plan ("SIP") and the Company accounts for this scheme in accordance with FRS 20.

Under the terms of the SIP, all employees are eligible for an annual award of free shares in the parent company. All employees have the right to subscribe for Partnership shares by way of a deduction to salary. Employees who have subscribed for Partnership shares may be eligible to receive Matching shares on a maximum ratio of two Matching shares to every one Partnership share.

The Fair value of the free shares is charged to the profit and loss account over the period from the beginning of the financial year from which qualifying service commences to the date at which the compensation is expected to vest in the employees. Shares are deemed to vest in the employees when all the risks and rewards have substantially transferred. The corresponding credit is included as a liability. No charge is taken to the profit and loss account for Partnership shares as the Company deducts employee remuneration equivalent to the fair value awarded. The fair value of Matching share awards is charged to the profit and loss account at the date any awards are granted. The fair value of any awards granted by way of Free or Matching shares is calculated by reference to the approved valuation with HM Revenue and Customs agreed for this purpose.

The cash cost of settling these awards is borne by the Company.

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS Year Ended 31 March 2014

1. TURNOVER

	2014 £000	2013 £000
Turnover by destination:		
United Kingdom	39,485	43,298
Europe	61,963	61,402
North America	10,883	8,871
Asia	9,291	9,831
Other	2,988	5,215
	<u>124,610</u>	<u>128,617</u>

All turnover originates from manufacturing in the U.K.

2. STAFF COSTS AND EMPLOYEE INFORMATION

	2014 £000	2013 £000
Wages and salaries	15,653	15,983
Social security costs	1,586	1,615
Other pension costs	1,347	1,309
	<u>18,586</u>	<u>18,907</u>

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

	2014 No.	2013 No.
Management and administration	68	69
Manufacturing and production	380	392
Distribution	44	64
	<u>492</u>	<u>525</u>

	2014 £000	2013 £000
Directors' emoluments:		
Emoluments	538	623
Pension contributions	28	51
	<u>566</u>	<u>674</u>

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS

Year Ended 31 March 2014

2. STAFF COSTS AND EMPLOYEE INFORMATION (CONTINUED)

During the current year five of the directors of the Company (who are not also directors of the parent company) were members of the group pension scheme (2013: five).

The aggregate emoluments of the highest paid director were £152,000 (2013: £174,000), including £10,000 in relation to pension contributions (2013: £11,000).

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2014 £000	2013 £000
Loss on ordinary activities before taxation is after charging /(crediting):		
Depreciation		
Tangible owned assets (note 6)	2,310	2,546
Tangible leased assets (note 6)	45	-
Gain on sale of fixed assets	(1,157)	-
Rentals under operating leases		
Plant and machinery	745	749
Land and buildings	603	673
Pension settlement gain (note 13)	(459)	-
Government grants and lease premium release	(157)	(193)
Loss on foreign currency exchange	254	113
Write-off of inter group balance	(1,042)	-
Redundancy costs	949	169
Auditors' remuneration		
Audit fees	40	40
Other services	6	6
	<u> </u>	<u> </u>

Redundancy costs are disclosed separately as exceptional operating expenses on the profit and loss account.

4. FINANCE CHARGES (NET)

	2014 £000	2013 £000
Bank interest payable	274	205
Bank interest receivable	-	(4)
Interest payable on finance leases	11	-
Interest payable on pension scheme financing (note 13)	393	479
	<u>678</u>	<u>680</u>

NOTES TO FINANCIAL STATEMENTS
Year Ended 31 March 2014

5. TAX ON LOSS ON ORDINARY ACTIVITIES

	2014	2013
	£000	£000
<i>Current taxation</i>		
UK corporation tax for the year	(711)	(434)
Adjustment in respect of prior years	(7)	(41)
	<u>(718)</u>	<u>(475)</u>
<i>Deferred taxation</i>		
Origination and reversal of timing differences	(1,256)	(502)
Adjustment in respect of prior years	30	(45)
Effect of changes in tax rates	261	-
	<u>(965)</u>	<u>(547)</u>
Tax on loss on ordinary activities	<u><u>(1,683)</u></u>	<u><u>(1,022)</u></u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 23% (2013: 24%). The actual tax credit for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation.

	2014	2013
	£000	£000
Loss on ordinary activities before tax	<u>(3,409)</u>	<u>(5,062)</u>
Tax on loss on ordinary activities at standard rate	(784)	(1,215)
<i>Factors affecting the credit for the year:</i>		
Expenses not deductible for tax purposes	(886)	300
Capital allowances in excess of depreciation	999	130
Short term timing differences	(71)	(166)
Income not taxable for tax purposes	(297)	(49)
Utilisation of tax losses	328	566
Adjustments to tax in respect of prior year	(7)	(41)
Current tax credit for the year	<u><u>(718)</u></u>	<u><u>(475)</u></u>

A reduction in the UK corporation tax rate to 21% (effective from 1 April 2014) and a further reduction to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 March 2014 has been calculated based on the rate of 20% enacted at the balance sheet date.

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS Year Ended 31 March 2014

6. TANGIBLE ASSETS

	Freehold Land & buildings	Plant and equipment	Assets in course of construction	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2013	16,298	65,661	1,438	83,397
Additions	-	90	-	90
Disposals	(16,186)	(1,837)	-	(18,023)
Transfer	-	1,438	(1,438)	-
At 31 March 2014	112	65,352	-	65,464
Depreciation				
At 1 April 2013	5,998	56,336	-	62,334
Charge for the year	325	2,030	-	2,355
Disposals	(6,323)	(1,836)	-	(8,159)
At 31 March 2013	-	56,530	-	56,530
Net book value				
At 31 March 2014	112	8,822	-	8,934
Net book value				
At 31 March 2013	10,300	9,325	1,438	21,063

Included within Plant and Equipment are assets held under finance leases with a cost at 31 March 2014 of £223,000 (2013: £223,000), accumulated depreciation at 31 March 2014 of £45,000 (2013: £nil) and a net book value at 31 March 2014 of £178,000 (2013: £223,000). Depreciation charged in the year to 31 March 2014 was £45,000.

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. No subsequent revaluations have taken place in accordance with the Company's policy. Assets acquired subsequently have been included at original historic cost.

On the 28 March 2014 Freehold Land and Buildings with an NBV of £9,863,000 were transferred from Tullis Russell Papermakers Limited to Tullis Russell Group Limited for consideration of £11,020,000. These assets will continue to be used by Tullis Russell Papermakers Limited.

Had the assets not been revalued, the amounts at 31 March 2014 would have been:-

	Freehold Land & Buildings	Plant and Equipment	Total
	£000	£000	£000
Historical cost	112	63,064	63,176
Aggregate depreciation	-	(54,242)	(54,242)
Historical cost net book value	112	8,822	8,934
Historical cost depreciation charge for the year	238	2,030	2,268

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS Year Ended 31 March 2014

7. STOCKS

	2014 £000	2013 £000
Raw materials and consumables	3,358	6,883
Work in progress	3,080	3,477
Finished goods and goods for resale	7,333	8,448
	<u>13,771</u>	<u>18,808</u>

The replacement cost of stocks is not materially different from the above.

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £000	2013 £000
Trade debtors	11,998	11,405
Amounts due from group undertakings	1,195	712
Prepayments and accrued income	118	276
VAT recoverable	1,525	2,248
Other debtors	704	59
Deferred tax (note 12)	1,734	753
	<u>17,274</u>	<u>15,453</u>

Amounts due from group undertakings are unsecured, interest free and are repayable on demand.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £000	2013 £000
Bank loans and overdrafts	330	2,678
Trade creditors	21,916	24,079
Amounts due to group undertakings	2,267	9,219
Other taxes and social security	458	560
Finance leases (note 11)	42	40
Accruals and deferred income	6,275	7,029
	<u>31,288</u>	<u>43,605</u>

The supplier payment policy is disclosed in the Strategic Report on page 2. The directors consider that the carrying amount of trade payables approximates to their fair value. Amounts due to group undertakings are unsecured, interest free and are payable on demand.

The bank facilities are secured against the Company's debtors ledger.

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS

Year Ended 31 March 2014

10. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2014 £000	2013 £000
Deferred government grants	2,233	2,391
Finance leases (note 11)	131	173
	<u>2,364</u>	<u>2,564</u>

11. FINANCE LEASES

	2014 £000	2013 £000
Maturity of finance leases:		
Within one year	42	40
In more than one year, but not more than two years	45	88
In more than two years, but not more than five years	86	85
	<u>173</u>	<u>213</u>

	2014 £000	2013 £000
Future minimum payments under finance leases are as follows:		
Within one year	51	51
In more than one year, but not more than five years	140	191
	<u>191</u>	<u>242</u>
Total gross payments	191	242
Less finance charges included above	(18)	(29)
	<u>173</u>	<u>213</u>

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS

Year Ended 31 March 2014

12. DEFERRED TAXATION

	Deferred Taxation £000
At 1 April 2013	753
Credited to profit and loss account	1,011
Adjustment in respect of prior years	(30)
	<hr/>
At 31 March 2014	1,734
	<hr/>

	2014 £000	2013 £000
Provision for deferred taxation consists of the following amounts:		
Capital allowances in excess of depreciation	(1,121)	(2,238)
Other timing differences	(315)	(350)
Tax losses available	3,170	3,341
	<hr/>	<hr/>
	1,734	753
	<hr/>	<hr/>

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.

Defined Benefit Scheme

The assets of the scheme are held separately from those of the group and are invested by trustees in pooled managed funds. An actuarial valuation was carried out at 6 April 2013 and updated to 31 March 2014 by Aon Consulting, independent consulting actuaries using the Projected Unit Method.

The major assumptions used by the actuary were:	2014	2013
Rate of increase in pensions in payment	3.15%	3.15%
Discount rate	4.35%	4.60%
Rate of inflation – RPI	3.30%	3.30%
Rate of inflation - CPI	2.20%	2.20%

Mortality for current and future pensioners for 2013 and 2014 has been based on SAPS, with 2010 CMI Improvements with 1% underpin, + 3 years for females only.

NOTES TO FINANCIAL STATEMENTS

Year Ended 31 March 2014

13. PENSION COMMITMENTS (CONTINUED)

The company's share 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:

The assets in the scheme and the expected rates of return were:

	2014		2013	
	Long-term Rate of Return Expected	Fair Value £000	Long-term Rate of Return Expected	Fair Value £000
Bonds	4.0%	17,254	4.0%	17,696
Cash	2.5%	1,799	2.5%	2,161
Annuity policy	4.35%	47,033	4.6%	46,447
		<hr/>		<hr/>
Total market value of assets		66,086		66,304
Present value of scheme liabilities		(66,117)		(66,944)
		<hr/>		<hr/>
Deficit in scheme		(31)		(640)
Related deferred tax asset		6		148
		<hr/>		<hr/>
Net pension deficit		(25)		(492)
		<hr/>		<hr/>

Reconciliation of present value of scheme liabilities	2014 £000	2013 £000
At 1 April	(66,944)	(65,948)
Defined benefit service cost	(463)	(424)
Interest cost	(3,071)	(3,149)
Actuarial gain	3,082	1,363
Liabilities extinguished on settlements	459	-
Benefits paid	820	1,214
	<hr/>	<hr/>
At 31 March	(66,117)	(66,944)
	<hr/>	<hr/>

Reconciliation of fair value of scheme assets	2014 £000	2013 £000
At 1 April	66,304	63,380
Expected return	2,678	2,670
Actuarial (loss)/gain	(2,539)	85
Contributions paid by employer	463	1,383
Benefits paid	(820)	(1,214)
	<hr/>	<hr/>
At 31 March	66,086	66,304
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

Year Ended 31 March 2014

13. PENSION COMMITMENTS (CONTINUED)

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. The actual return on scheme assets in the year was £139,000 (2013: £2,755,000).

	2014	2013
	£000	£000
Amounts (credited)/charged to the profit and loss are as follows:		
Expected return on pension scheme assets	(2,678)	(2,670)
Interest on pension scheme liabilities	3,071	3,149
	<u>393</u>	<u>479</u>
Settlement gain	(459)	-
	<u>(66)</u>	<u>479</u>

Actuarial valuation

A triennial valuation was undertaken at 6 April 2013 resulting in a deficit of £8,087,000. This was subsequently updated to 6 April 2014 when the deficit had reduced to £5,154,000. During the financial year the Group agreed a deferment of cash contributions however a payment of £1,500,000 was made after the end of the financial year. On recommencement of monthly payments from April 2014, the Group has agreed with the trustees that it will make annual cash contributions of £1,000,000 over the next 5.5 years to make good the deficit. The scheme is closed to new entrants and to future accrual for existing members

Amounts for current and previous four years

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Defined benefit obligation	(66,117)	(66,944)	(65,948)	(58,833)	(71,983)
Plan assets	66,086	66,304	63,380	55,282	65,002
Deficit	(31)	(640)	(2,568)	(3,551)	(6,981)
Experience adjustments on plan assets	(2,539)	85	2,521	(8,231)	7,949
Experience adjustments on plan liabilities	4,688	3,025	1,309	5,371	6,025
	<u>543</u>	<u>1,445</u>	<u>(2,106)</u>	<u>(943)</u>	<u>(8,543)</u>
Total amount recognised in the statement of total recognised gains and losses	<u>543</u>	<u>1,445</u>	<u>(2,106)</u>	<u>(943)</u>	<u>(8,543)</u>

Defined Contribution scheme

The defined contribution pension cost for the Company was £945,000 (2013: £878,000). Outstanding contributions of £81,000 (2013: £78,000) are included in Creditors: amounts falling due within one year.

14. CALLED UP SHARE CAPITAL

	2014	2013
	£000	£000
Allotted, called up and fully paid		
54,490,000 ordinary shares of 10p each	<u>5,449</u>	<u>5,449</u>

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO FINANCIAL STATEMENTS Year Ended 31 March 2014

15. RESERVES

	Share premium account £000	Profit and loss account £000	Revaluation reserve £000	Total £000
At 1 April 2013	876	(1,455)	3,798	3,219
Loss for the financial year	-	(1,726)	-	(1,726)
Actuarial gain relating to the pension scheme	-	418	-	418
Transfer of amount equivalent to additional depreciation on revalued assets	-	87	(87)	-
Released on disposal of revalued assets	-	3,711	(3,711)	-
At 31 March 2014	876	1,035	-	1,911

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2014 £000	2013 £000
Opening shareholders' funds	8,668	11,621
Total recognised gains and losses	(1,308)	(2,953)
Closing shareholders' funds	7,360	8,668

17. LEASE OBLIGATIONS

At 31 March 2014 the Company had annual commitments under non-cancellable operating leases for assets expiring as follows:-

	2014		2013	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Operating leases which expire:				
Within one year	126	134	198	130
In the second to fifth years inclusive	-	505	281	605
	126	639	479	735

18. CAPITAL COMMITMENTS

	2014 £000	2013 £000
Contracted but not provided for	-	24

NOTES TO FINANCIAL STATEMENTS

Year Ended 31 March 2014

19. CONTINGENT LIABILITIES AND GUARANTEES

The maximum bank borrowings guaranteed by the Company, including amounts recognised in these financial statements, relating to group borrowings amounted to £nil (2013: £nil).

The UK bank facilities for the Tullis Russell Group are secured against the Company's debtors ledger. There are quarterly financial covenants associated within the UK bank facilities which the Company has complied with during the financial year.

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' in not disclosing details of transactions with other group companies. There have been no other related party transactions.

21. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking is Tullis Russell Group Limited. The ultimate controlling parties are the trustees of Tullis Russell (1987) Employee Benefits Trust, Tullis Russell Group Second Employee Share Ownership Trust, Tullis Russell Employee Profit Sharing Share Scheme, Tullis Russell Group Employee Profit Sharing Share Scheme and Tullis Russell Group Employee Share Ownership Plan who acting in concert will, in normal circumstances, form the controlling party as defined in FRS 8 'Related Party Disclosures'. Tullis Russell Group Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements. Copies of the accounts of Tullis Russell Group Limited may be obtained from Companies House, 4th floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh EH3 9FF.