

TULLIS RUSSELL PAPERMAKERS LIMITED

Report and Financial Statements

31 March 2004

Deloitte & Touche LLP
Edinburgh



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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
G Ellis (appointed 26th September 2003)

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 2004.

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 profit on the ordinary activities before taxation was £2,270,000 (2003: £2,747,000). The taxation charge was £1,121,000 (2003: £1,000,000), leaving a profit after taxation of £1,149,000 (2003: £1,747,000). Cash balances increased by £1,906,000 during the year.

DIVIDENDS

The directors recommend the payment of a dividend of £541,000 (2003: £852,000).

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 served from the 26th September 2003. None of the directors had any interest in the shares of the company at 31 March 2004 or 1 April 2003. Directors' interests in the share capital of the parent undertaking were as follows:

	At 31 March 2004 Ord shares of 10p each	At 31 March 2003 Ord shares of 10p each
M M Sinclair	22,450	21,891
N Shepherd	21,894	19,280
N J Fedo	11,615	9,001
G Ellis	836	279
	<hr/> 56,795	<hr/> 50,451

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 2004 was £828,000 (2003: £1,137,000). 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 2004 £304,000 (2003: £243,000) 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.

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 respect of employees who have become disabled during the year, 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 £9,000 (2003: £7,000).

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 2004 and the amounts owed to its trade creditors at the end of the year was 74 days (2003 – 82 days).

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

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 10 June 2004 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

10 June 2004

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 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 2004 which comprise the profit and loss account, 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

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 2004 and of its profit 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
10 June 2004

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2004

	Note	2004 £'000	2003 Restated (see note 2) £'000
TURNOVER: continuing operations	2	109,239	104,287
Cost of sales		(85,202)	(80,218)
Gross profit		24,037	24,069
Distribution costs		(15,163)	(15,091)
Administrative expenses		(6,053)	(5,715)
OPERATING PROFIT: continuing operations	4	2,821	3,263
Net interest payable	5	(551)	(516)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,270	2,747
Tax on profit on ordinary activities	6	(1,121)	(1,000)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,149	1,747
Dividends	7	(541)	(852)
RETAINED PROFIT FOR THE YEAR	16	608	895

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current and preceding financial year and accordingly, no Statement of Total Recognised Gains and Losses are shown.

NOTE OF HISTORICAL COST PROFITS AND LOSSES
For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Reported profit on ordinary activities before taxation		2,270	2,747
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	16	510	450
Historical cost profit on ordinary activities before taxation		<u>2,780</u>	<u>3,197</u>
Historical cost profit retained after taxation and dividends		<u>1,118</u>	<u>1,345</u>

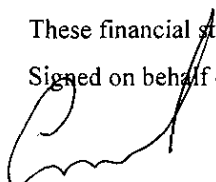
TULLIS RUSSELL PAPERMAKERS LIMITED

BALANCE SHEET 31 March 2004

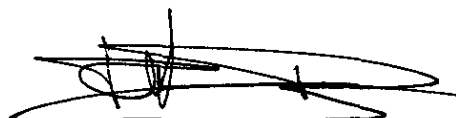
	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Tangible assets	8	41,082	43,335
CURRENT ASSETS			
Stocks	9	11,418	12,481
Debtors	10	16,690	17,298
Cash at bank and in hand		13,099	11,193
		41,207	40,972
CREDITORS: amounts falling due within one year	11	(22,592)	(24,569)
NET CURRENT ASSETS		18,615	16,403
TOTAL ASSETS LESS CURRENT LIABILITIES		59,697	59,738
CREDITORS: amounts falling due after more than one year			
Obligations under finance leases	12	(327)	(339)
Pension commitments	13	(1,167)	(2,565)
Deferred tax	14	(4,957)	(4,851)
		(6,451)	(7,755)
ACCRUALS AND DEFERRED INCOME			
Deferred government grants		(2,030)	(1,375)
NET ASSETS		51,216	50,608
CAPITAL AND RESERVES			
Called up share capital	15	5,449	5,449
Share premium account	16	876	876
Revaluation reserve	16	6,091	6,601
Profit and loss account	16	38,800	37,682
TOTAL EQUITY SHAREHOLDERS' FUNDS	17	51,216	50,608

These financial statements were approved by the Board of Directors on 10 June 2004.

Signed on behalf of the Board of Directors



CAG Parr
Director



DC Munro
Director

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

1. ACCOUNTING POLICIES

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 accounting standards.

The particular accounting policies adopted are described below.

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.

Depreciation

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

Revalued assets

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.

NRV 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.

Research and development

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

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

1. ACCOUNTING POLICIES (CONTINUED)

Deferred taxation

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 defined benefit section is valued every three years by a professionally qualified independent actuary and any variations from regular cost arising from the actuarial valuations are 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 is 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

	2004	2003
	£'000	Restated £'000
Turnover by destination:		
United Kingdom	54,166	48,023
Europe	40,109	35,292
North America	6,796	8,762
Asia	4,585	1,343
Other	3,583	10,867
	<u>109,239</u>	<u>104,287</u>

All turnover originates from manufacturing in the U.K.

Restatement

The profit and loss account for the year ended 31 March 2003 has been restated to reduce turnover and net operating expenses by £3,256,000. This reduction reflects the elimination of rebates previously recorded as net operating expenses. This reclassification has no impact on profit before tax or net assets.

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

3. STAFF COSTS

	2004	2003
	£'000	£'000
Wages and salaries	13,939	14,848
Social security costs	1,480	1,395
Other pension costs	688	654
	<u>16,107</u>	<u>16,897</u>

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

	2004	2003
	No	No
Management and administration	44	42
Manufacturing and production	476	496
Distribution	74	78
	<u>594</u>	<u>616</u>

Directors' remuneration:	2004	2003
	£'000	£'000
Remuneration	627	590
Pension contributions	101	58
	<u>728</u>	<u>648</u>

Remuneration of highest paid director:

Remuneration	171	172
Pension accrued	37	33
	<u>208</u>	<u>205</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 earliest any payments under the plan will become payable will be in the year ending 31 March 2005 and will be based on the financial performance of the company in the three years to March 2004.

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 2004

4. OPERATING PROFIT

	2004 £'000	2003 £'000
Operating profit is after charging/(crediting):		
Depreciation and amortisation		
Owned assets	4,706	4,438
Leased assets	236	191
Rentals under operating leases		
Plant and machinery	562	250
Land and Buildings	529	520
Government grant release	(265)	(173)
Directors remuneration (note 3)	728	648
Loss on foreign currency exchange	2,286	385
Auditors' remuneration		
audit fees	32	26
other services	18	18
Impairment of fixed asset (note 8)	335	-
Provision for fixed asset decommissioning	148	-
	<u> </u>	<u> </u>

5. NET INTEREST PAYABLE

	2004 £'000	2003 £'000
Bank interest payable	219	324
Finance charges payable under finance leases	25	28
Interest on loan from parent undertaking	644	595
Bank interest receivable	(337)	(431)
	<u> </u>	<u> </u>
	551	516

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004	2003
	£'000	£'000
<i>Current taxation</i>		
UK corporation tax charge for the period	883	-
Adjustment in respect of prior years	127	(165)
Overseas tax	5	4
	<u>1,015</u>	<u>(161)</u>
<i>Deferred taxation</i>		
Origination and reversal of timing differences	229	1,246
Adjustment in respect of prior years	(123)	(85)
	<u>1,121</u>	<u>1,000</u>

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.

	2004	2003
	£'000	£'000
Profit on ordinary activities before tax	2,270	2,747
Tax on profit on ordinary activities at standard rate	681	824
<i>Factors affecting the charge for the period:</i>		
Expenses not deductible for tax purposes	431	422
Capital allowances in excess of depreciation	324	(105)
Other deferred tax movements – losses and provisions	(553)	(1,141)
Adjustments to tax in respect of prior periods	127	(165)
Overseas tax	5	4
	<u>1,015</u>	<u>(161)</u>

7. DIVIDENDS

	2004	2003
	£'000	£'000
Equity dividends		
Final proposed – 1.0p per ordinary share (31 March 2003 - 1.6p)	<u>541</u>	<u>852</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

8. TANGIBLE FIXED ASSETS

	Land & buildings	Plant and equipment		Assets in course of construction	Total
	£'000	Owned £'000	Leased £'000	£'000	£'000
Cost or valuation					
At 1 April 2003	15,792	53,961	3,771	315	73,839
Additions	65	3,253	-	29	3,347
Commissioned	-	315	-	(315)	-
Disposals	(305)	(1,407)	-	-	(1,712)
At 31 March 2004	15,552	56,122	3,771	29	75,474
Depreciation					
At 1 April 2003	(3,050)	(26,076)	(1,378)	-	(30,504)
Charge for the year	(335)	(4,371)	(236)	-	(4,942)
Impairment	(163)	(172)	-	-	(335)
Disposals	199	1,190	-	-	1,389
At 31 March 2004	(3,349)	(29,429)	(1,614)	-	(34,392)
Net book value					
At 31 March 2004	12,203	26,693	2,157	29	41,082
Net book value					
At 31 March 2003	12,742	27,885	2,393	315	43,335

The net book value of the company's assets includes £982,000 (2003: £731,000) 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 2004 would have been:-

	£'000	£'000	£'000	£'000	£'000
Historical cost	10,775	84,976	8,753	29	104,533
Depreciation	(3,787)	(59,952)	(5,802)	-	(69,541)
Historical cost net book value	6,988	25,024	2,951	29	34,992
Historical cost depreciation charge for the year	220	3,907	421	-	4,548

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

9. STOCKS

	2004	2003
	£'000	£'000
Raw materials	3,898	4,078
Work in progress	1,807	1,830
Finished goods	5,713	6,573
	<u>11,418</u>	<u>12,481</u>

10. DEBTORS

	2004	2003
	£'000	£'000
Trade debtors	14,956	15,515
Amounts owed by group undertakings	894	1,454
Other debtors	342	7
Prepayments and accrued income	498	288
Corporation tax receivable	-	34
	<u>16,690</u>	<u>17,298</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£'000	£'000
Trade creditors	17,053	19,726
Obligations under finance leases	275	170
Other taxes and social security	613	31
Other creditors	3,429	4,021
Accruals and deferred income	805	621
Corporation tax payable	417	-
	<u>22,592</u>	<u>24,569</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

12. OBLIGATIONS UNDER LEASE CONTRACTS

	2004 £'000	2003 £'000
Finance leases		
Amounts payable:		
Within one year	275	170
In the second to fifth years inclusive	327	339
	<u>602</u>	<u>509</u>

	2004		2003
	Land & Buildings £'000	Other £'000	Land & Buildings £'000
Operating leases which expire:			Other £'000
Within one year	-	98	-
In the second to fifth years inclusive	-	444	14
After five years	515	17	506
	<u>515</u>	<u>559</u>	<u>520</u>
			<u>343</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 2002. 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 1.5%; Revaluations 2%; Pensions 3.75%. According to the 2002 actuarial valuation, the market value of the assets of the scheme was £74m. In addition, the trustees of the scheme are entitled to receive pensions on an insured basis for certain retired members. A smoothed market value of assets was adopted for the actuarial valuation for SSAP 24 purposes, and this represented 105% of the benefits that had accrued to members, after allowing for expected future increases in earnings and revaluations.

The pension charge for the year is £688,000 (2003: £654,000).

The pension cost figures used in these financial statements comply with the current pension cost accounting standard SSAP 24. However, under the transitional arrangements for the new pension cost standard, FRS 17, the company is required to disclose the following additional information.

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 accounts for the scheme as if it were a defined contribution scheme. Within the parent company's accounts (Tullis Russell Group Limited) a FRS 17 deficit of £17,159,000 (2003: £17,585,000) net of deferred tax, is disclosed.

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

13. PENSION COMMITMENTS (CONTINUED)

As stated in the Tullis Russell Group Limited financial statements for the year ended 31 March 2004, the full actuarial valuation at 6 April 2002 was updated to 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 2004	At 31 March 2003	At 31 March 2002
Rate of increase in salaries (excluding promotions)	4.0%	3.9%	4.4%
Rate of increase in national annual earnings	4.0%	3.9%	4.4%
Rate of increase in deferred pensions	3.0%	2.4%	2.9%
Rate of increase in pensions in payment	3.0%	2.4%	2.9%
Discount rate	5.5%	5.4%	6.1%
Inflation assumption	3.0%	2.4%	2.9%

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:

	2004		2003		2002	
	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%	31,330	8.75%	23,893	8.0%	33,573
Bonds	5.0%	39,258	5.0%	38,987	5.5%	37,840
Property	7.5%	1,662	8.0%	1,466	8.0%	1,327
Cash	4.0%	3	5.0%	186	5.0%	63
Defined contribution assets		3,535		1,328		-
Total fair value of assets		75,788		65,860		72,803
Present value of scheme liabilities		(100,301)		(90,981)		(78,141)
Deficit in scheme		(24,513)		(25,121)		(5,338)
Related deferred tax asset		7,354		7,536		1,601
Net pension liability		(17,159)		(17,585)		(3,737)

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 2002. The scheme actuary's assessment of the MFR funding level was a figure of 97% meaning that there is a shortfall in the funding of the scheme on an MFR basis. The scheme actuary carried out a funding updated at April 2003 and advised that the MFR funding level at that date was 93%. As a result, the group has agreed to make additional annual cash payments of £1,400,000 into the pension scheme for the next 10 years. The continued adequacy of these contributions will be reassessed each year.

A provision of £1,167,000 (2003: £2,565,000) is included in long term creditors, this being the excess of the company's pension cost charged to the profit and loss account over the amounts paid in company contributions.

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

14. PROVISION FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Pension £'000	Total £'000
Balance at 1 April	4,851	2,565	7,416
Current year charge	106	688	794
Utilised in year	-	(2,086)	(2,086)
	<hr/>	<hr/>	<hr/>
Balance at 31 March	4,957	1,167	6,124
	<hr/>	<hr/>	<hr/>

Deferred taxation	2004 £'000	2003 £'000
Provision for deferred taxation consists of the following amounts:		
Capital allowances in excess of depreciation	5,962	6,108
Other timing differences	(1,005)	(1,257)
	<hr/>	<hr/>
	4,957	4,851
	<hr/>	<hr/>

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 2004

15. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised		
54,691,000 ordinary shares of 10p each	5,469	5,469
Called up, allotted and fully paid		
54,490,000 ordinary shares of 10p each	5,449	5,449

16. STATEMENT OF RESERVES

	Share premium account £'000	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
At 1 April	876	37,682	6,601	45,159
Retained profit for the year	-	608	-	608
Transfer of amount equivalent to additional depreciation on revalued assets	-	510	(510)	-
At 31 March	876	38,800	6,091	45,767

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Shareholders' funds at 1 April	50,608	49,713
Profit for the year	1,149	1,747
Dividend	(541)	(852)
Net additions to shareholders' funds	608	895
Shareholders' funds at 31 March	51,216	50,608

18. CAPITAL COMMITMENTS

	2004 £'000	2003 £'000
Contracted	247	110
Committed	3,867	2,422

TULLIS RUSSELL PAPERMAKERS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

19. CONTINGENT LIABILITIES AND GUARANTEES

Contingent liabilities and guarantees not provided.

	2004 £'000	2003 £'000
Guarantees and indemnities		
Bank borrowings – extent utilised at 31 March – group undertaking	244	284

The maximum bank borrowings guaranteed by the company relating to group borrowings amounted to £19,642,000 (2003: £20,179,000).

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.