



Joint Administrators' progress report for the period 27 October 2016 to 26 April 2017

Tullis Russell Papermakers
Limited - in Administration

9 June 2017

Notice to creditors

This progress report provides an update on the administration of the Company.

We have included (Appendix 2) an account of all amounts received and payments made since the date of our appointment.

We have also explained our future strategy for the administration and how likely it is that we will be able to pay each class of creditor.

You will find other important information in this progress report such as the costs which we have incurred to date.

A glossary of the abbreviations used throughout this document is attached (Appendix 4).

Finally, we have provided answers to frequently asked questions and a glossary of insolvency terms on the following website, <http://www.insolvency-kpmg.co.uk/case+KPMG+TF427D5259.html>. We hope this is helpful to you.

Please also note that an important legal notice about this progress report is attached (Appendix 5).

Contents

1	Executive summary	2
2	Progress to date	4
3	Dividend prospects and dividends paid	8
4	Other matters	9
5	Joint Administrators' remuneration, outlays and disbursements	12
6	Future strategy	13
Appendix 1	Statutory information	14
Appendix 2	Joint Administrators' receipts and payments account	15
Appendix 3	Joint Administrators' charging and disbursements policy	18
Appendix 4	Glossary	24
Appendix 5	Notice: About this report	25

1 Executive summary

- This progress report covers the period from 27 October 2016 to 26 April 2017.
- Following the removal of the final pieces of plant and machinery, which were subject to the sale agreement with Nexus 5, the Joint Administrators took steps to vacate the Mill Site in Markinch (the 'Mill Site'). From 9 January 2017, TRP ceased to occupy the Mill Site. Various meetings were held with the Mill Site's owners, TRG, ahead of the vacation to agree an orderly handover. (Section 2.1 – Strategy and progress to date).
- A final receipt of £40,000 was received in the period in relation to the previously agreed sale of TRP's remaining plant and machinery. (Section 2.2 – Asset realisations).
- Other realisations in the period include, the sale of scrap materials, a German VAT bad debt relief claim, and a non-domestic rates refund following an appeal to Fife Council. (Section 2.2 – Asset realisations).
- Site repairs and maintenance, and employee costs associated with the safe removal of Plant and Machinery represent the main costs incurred during the period. (Section 2.3 - Costs).
- The Pension Scheme holds standard securities over two areas of freehold land, with this security up to a maximum of £13.5 million. The sites have not yet been sold and a disposal strategy is currently being agreed with the Pension Scheme trustees. TRP had no other outstanding secured debt (Section 3.1 – Secured creditors).
- All preferential claims have been settled. This represents a dividend of 100p in the £ (Section 3.2 – Preferential Claims).
- An equalising dividend was facilitated on 16 March 2017 to creditors who submitted a claim following the payment of the first interim dividend on 24 June 2016. A second interim dividend of 8p in the £ was also declared on 20 April 2017 for all creditors with an agreed claim. (Section 3.3 – Unsecured creditors).
- We are continuing to progress matters to realise TRP's other assets which include, but are not limited to, the areas of freehold land, the remaining debtors and legal actions against third parties (Section 4.2 – Other case specific matters).
- The administration is currently due to end on 26 April 2018. This is resultant of a request approved by the Court for a 12 month extension (Section 6.2 – Extension of the administration).

- Please note: you should read this progress report in conjunction with our previous progress reports and proposals. Unless stated otherwise, all amounts in this progress report and appendices are stated net of VAT.



Tony Friar
Joint Administrator

2 Progress to date

This section updates you on our strategy for the administration and on our progress to date. It follows the information provided in our previous progress reports.

2.1 Strategy and progress to date

Strategy

As previously advised, following unsuccessful attempts to identify a party willing to purchase TRP's business and assets as a going concern, our strategy and focus in the administration has been to implement an orderly wind down and piecemeal disposal of TRP's assets in order to maximise realisations. Key elements of this strategy are:

- Reduce TRP's cost base to a level commensurate with the reduced operational activity;
- Assist redundant employees to make claims to the RPO for their entitlements;
- Maximise value for TRP's WIP by completing and converting items into finished goods;
- Liaise with TRP's customers in order to sell finished goods stock through normal sales channels;
- Collect TRP's pre-administration book debts and ensure timely payment for sales made post-administration;
- Market and sell TRP's plant and machinery on a piecemeal basis;
- Run a separate sales process to identify any interest in TRP's brands/intellectual property and its Electrical Crepe Paper business;
- Liaise with TRP's creditors as effectively and efficiently as possible; and
- Adhere to all statutory and other legal requirements of the administration process.

A significant portion of this strategy is now complete; the discrete areas referred to above (to the extent that they relate to the period in question) are considered in detail within this report.

Exit from Mill Site

As previously reported, TRP continued to occupy the Mill Site in the period subsequent to the administration. The Mill Site is owned by TRG and no formal lease or terms of occupation were in place with TRP.

The continued use of the Mill Site allowed the orderly wind down of operations and realisation of TRP's assets, which included large items of plant and machinery used in the papermaking process.

Following the removal of the final items of plant and machinery on 30 November 2016, we advised TRG that TRP would cease to occupy the Mill Site for the benefit of the administration from 9 January 2017.

Several meetings have been held with TRG during the course of the administration to discuss various matters including, but not restricted to:

- The strategy and timing of TRP's vacation of the Mill Site. Due to the nature of the site and the security, health and safety risks it presented, an orderly transition from TRP to TRG was essential;

- The extent of, and responsibility for any remedial works needed as a consequence of plant and machinery removed from the site during the course of the administration;
- Rent/compensation due to TRG as a result of TRP's occupation of the Mill Site; and
- Responsibility for removal/remediation of the Mill Site power house, which generated electricity on the site until March 2013.

With the exception of the first point, as a result of there being no lease or other formal documentation governing TRP's occupation of the Mill Site, none of these matters had a clearly defined position/resolution, either in legal or commercial terms.

It was therefore necessary for TRP and TRG to obtain extensive legal advice regarding their respective positions. Unfortunately, the legal advice obtained by TRP and TRG differed significantly, and it was clear that if a negotiated commercial position between the parties could not be achieved, a resolution would only be attainable through a potentially time consuming and expensive Court process.

Following a detailed review of the legal position and extensive negotiations with TRG, a settlement in principal was reached with TRG, which offers a positive outcome to creditors in the circumstances. The potential liability to TRP if a legal action (by TRG) was successful could have been substantially higher than the proposed settlement. Furthermore the uncertainty over the length of any legal process could have delayed the distribution of further funds to creditors.

We considered it appropriate that the Creditors' Committee should be consulted on the proposed settlement and their agreement sought, given the complexity of the issues and the quantum involved. The Creditors' Committee were issued with a report for consideration on 2 March 2017 which provided further detail on the proposed settlement. Subsequently a meeting was held on 24 March 2017 to discuss the report and answer the Committee's queries. On 11 April 2017 the Creditors' Committee provided their approval to make a payment of £450,000 (excl. VAT) to TRG as an expense of the administration in full and final settlement of all existing and future claims TRG has against TRP.

This settlement excludes TRG's existing unsecured claim in the administration for pre-administration, inter-company amounts which have previously been adjudicated upon. A formal legal settlement agreement containing the terms of the payment from TRP to TRG is currently being drafted by our solicitors. Once this has been finalised, the payment to TRG will be facilitated.

All other site related costs (for example, security, rates etc.) ceased to be TRP's responsibility from 9 January 2017- the date the Mill Site was vacated.

2.2 Asset realisations

Realisations during the period are set out in the attached receipts and payments account (Appendix 2).

Summaries of the most significant realisations during the period are provided below.

Plant and machinery

As previously reported, a sale of all remaining plant and machinery was agreed with Nexus for a consideration of £3.0 million. The final payment of £40,000 was received in the period, which relates to the agreed contribution that Nexus made towards site infrastructure costs during the period of plant and machinery removal.

In conjunction with KPMG's Global Sustainability Services team and with the assistance of TRP's retained staff, we have worked closely with Nexus and their specialist contractors to implement processes and procedures regarding the safe and orderly dismantling and removal of the remaining items of plant and equipment from site. The final pieces of plant and machinery were removed on 30 November 2016.

The additional £5,000 receipt is in relation to the sale of piping, which is unrelated to the Nexus sale.

Book debts

Book debt realisations of £25,945 in the period relate to foreign currency exchange movements, compared to our previous progress report for the period ended 26 October 2016.

Sales

Similarly sales of £21,603 in the period relate to foreign currency exchange movements. All foreign currency cash balances have now been converted to GBP and no further currency exchange movements are anticipated.

Other income

£11,000 has been received in the period in relation to the sale of scrap materials, shown under 'Other Income' in the receipts and payments account (Appendix 2).

German VAT

£2,609 has been received in the period, which relates to a bad debt relief application which was submitted post-appointment.

Rates refund

GVA were appointed in the period to lodge a non-domestic rates appeal in respect of post-administration rates and the rateable value applied by Fife Council. Resultantly a rates refund of £693,010 has been received in the period. This income has been netted against rates paid in the period, and can be seen under 'Rates' in the receipts and payments account (Appendix 2).

2.3 Costs

Payments made in this period are set out in the attached receipts and payments account (Appendix 2).

Summaries of the most significant payments made during the period are provided below.

Employees

A number of staff were retained during the period to assist us with, inter alia, the following matters:

- The decommissioning of plant and machinery;
- Onsite security;
- Site clearance and hazardous material removal;

- Environmental considerations; and
- Preparing the Company books and records for collection.

As the administration process progressed and the level of assets to realise reduced, further redundancies have been made. The final seven employees were made redundant on 31 December 2016, which coincided with the exit from the site. We have continued to assist redundant staff with submitting their claims to the RPO.

The costs associated with paying employees are shown under the 'Direct labour' caption in Appendix 2 and total £118,921 for the period.

Repairs, maintenance, HSE and site clearance

Costs of £46,708 were incurred in the period, primarily for the disposal of chemicals and safety inspections/monitoring relating to onsite asbestos.

Security costs

Security costs of £37,839 have been incurred in the period which relate to the Mill Site.

Agents' fees

Agent's fees totalling £59,424 have been paid in the period, with £40,576 relating to the work undertaken by RSK to surrender the site Pollution Prevention and Control permit. This work is still ongoing and is considered further in Section 4.2.

Legal fees

Legal fees of £25,504 have been paid during the period. These fees relate to general legal matters in the administration, such as: assistance with creditor contractual claims; advice in relation to the recovery of the remaining debtor balances; and consideration of the matters outlined in Section 2.1 Exit from Mill Site.

Rates

Non-domestic rates for the period 1 November 2016 to 7 January 2017 in relation to the Mill site have been paid in the period, at a cost of £178,246. This includes a deduction for available empty property reliefs. The figure is netted off the rates refund of £693,010 outlined in section 2.2. The net figure in the trading account (Appendix 2) is a receipt of £514,765.

Insurance of assets

Insurance premiums for the period 1 August 2015 to 26 October 2016 have been paid in the period, at a cost of £74,529.

3 Dividend prospects and dividends paid

3.1 Secured creditors

As previously advised, TRP granted standard securities in favour of the Pension Scheme over two areas of freehold land known as the North and South sites. The amount secured is for all sums due to the Pension Scheme up to a maximum of £13.5 million. The estimated amount owed to the Pension Scheme significantly exceeds the value of its security. Realisations from the sale of the North and South sites will not exceed the £13.5 million the Pension Scheme is entitled to. Therefore, there will be no surplus funds available to TRP's other creditors from the sale of the North and South sites.

3.2 Preferential creditors

Further to the first interim dividend facilitated on 24 June 2016, an equalising dividend of 100 pence per pound was paid to all preferential creditors with an increased element to their claim on 9 March 2017. Increased preferential claims totalled £6,499.10, which comprised of contractual entitlements for the period 1 April 2015 to 27 April 2015.

All preferential creditors have now been repaid in full.

Any unclaimed dividends will be consigned to the Accountant of Court where appropriate.

3.3 Unsecured creditors

Dividends paid

The Joint Administrators have paid a first interim dividend of 20.1p in the £ totalling £9,854,262 to 647 unsecured creditors, with agreed claims of £49,026,178. This includes equalising dividends of £114,695 which were paid on 11 April 2017 in respect of unsecured claims that were admitted to rank following the payment of the first interim dividend on 27 June 2016.

The Joint Administrators' receipts and payments account at Appendix 2 shows payments to unsecured dividends of £9,843,380 as dividend cheques totalling £10,882 have been written back and subsequently reissued to creditors after the period end.

We obtained approval from the Creditors' Committee to pay a second interim dividend (8 pence in the £) to all unsecured creditors with an agreed claim. This dividend which totalled £3,922,094 was formally declared on 20 April 2017 and has been paid subsequent to the period covered by this report.

Please see table below which sets out the current unsecured claims position.

Unsecured creditor claims as at 26 April 2017						
	Number of Claims	Agreed Claims (£000)	Dividend Paid (£000)	Cheques to be reissued (£000)	Total (£000)	Pence
First interim and equalising dividend	647	49,026	9,844	10	9,854	20.1
Second interim dividend	647	49,026	3,922	-	3,922	8.0
Total	647	49,026	13,766	10	13,776	28.1

Source: Joint Administrators records

Further dividend prospects

There will be a third and final distribution facilitated thereafter once all matters in the administration have been dealt with. The quantum and timing of the final dividend is wholly dependent upon final asset realisations and the future costs of the administration process.

4 Other matters

4.1 Creditors' Committee

As previously advised, a Creditors' Committee was elected at the meeting of creditors held on 3 May 2016.

Committee meetings

Details of the meeting held on 10 October 2016 were included in the previous report.

A further meeting was held 24 March 2017 to discuss the latest report provided to the Committee and to consider the following resolutions:

- the Joint Administrators' account of intromissions for the period 27 April 2016 to 16 January 2017;
- the Joint Administrators may draw disbursements of £980 (plus VAT), which have been incurred but not drawn to the period to 16 January 2017;
- agreement to the proposed settlement with TRG in relation to site costs as an expense of the administration;
- the Joint Administrators are authorised to make an application to Court to extend the period of the administration for a further 12 months to 26 April 2018;
- the Joint Administrators are authorised to distribute a second interim dividend of 8 pence in the £ to unsecured creditors.

The Committee approved these resolutions on 11 April 2017.

4.2 Other case specific matters

Freehold property

As previously reported, TRP owns two areas of freehold land situated to the North and South of the paper making facility in Markinch. Both areas of land are secured to the Pension Scheme. Maximising realisations from the disposal of these sites will therefore reduce the Pension Scheme's residual unsecured claim in the administration, which will be of benefit to the general body of unsecured creditors.

It had been hoped that a sale of the South Site, which has been agreed in principle would complete in June 2016. However the proposed purchaser decided not to proceed with their offer and no sale occurred.

In the period subsequent, discussions were held with a number of other parties, with an interest in both the North and South sites, however this interest did not result in any acceptable or credible offers.

During February 2017 we asked for an updated valuation of the North and South sites from GVA on the assumption that they are sold in their current state, (as opposed to undertaking planning and development works), to assist with determining the next steps and strategy for realising the sites. We have now received the valuation update from GVA and are in the process of agreeing the disposal strategy with the Pension Scheme trustees.

In order to ensure commercial negotiations are not prejudiced, we are unable to provide an indication of the sites potential values at this stage.

Debtors

Approximately £1.2 million of debtor balances remain outstanding. These balances include international customers (£0.2 million) and £1.0 million owed by the Paperlinx Group which is discussed in the next section.

The collectability of the remaining overseas balances is currently uncertain. We have not recovered any funds from TRP's international customers during this period, however, we have entered in to a settlement agreement with one customer which has now resulted in a receipt of £113,977, paid following the period end.

We have continued to take legal action against the relevant parties with outstanding balances, where it is considered cost effective to do so. Due to the complexities associated with the legal proceedings in each country, the prospects of recoverability remains uncertain.

Paperlinx

At the date of appointment, TRP had outstanding debtor balances owed by The Paper Company Limited, Howard Smith Paper Group Limited and the Robert Horne Group Limited (referred to together as the 'Paperlinx Group') totalling approximately £1.0 million. As advised in our previous reports, the Paperlinx Group (and certain other related companies) entered into insolvency proceedings on 1 April 2015, casting doubt over the recoverability of the debts they owed to TRP.

TRP held credit insurance with Atradius N.V. ('Atradius') in relation to sums owed by certain customers, including the Paperlinx Group. Prior to TRP's insolvency, Atradius had been notified by TRP's staff of a potential claim for the Paperlinx Group's debt under the insurance policy. In the period since the administration, we have engaged in extensive discussions with Atradius regarding TRP's claim and have also sought guidance from our lawyers, CMS, on this matter. Discussions with Atradius reached an impasse, and in conjunction with CMS and appointed legal counsel, we corresponded with the legal representatives of Atradius. Pre litigation action protocols were commenced and the basis of TRP's claim against Atradius was formally intimated.

Atradius requested further information in relation to the quantum of TRP's claim through their legal representative, which we provided to them. We have now agreed a date for mediation of 5 July 2017 with Atradius, which could avoid a formal court process.

The quantum and timing of future recoveries will be dependent upon the forthcoming mediation and the successful resolution of any legal process.

Health and Safety

All relevant HSE legislation and standards have been adhered to during the period of the administration to date, and we have maintained regular dialogue with the various regulatory bodies.

TRP's former papermaking activities were subject to a Pollution Prevention and Control ('PPC') permit granted by the Scottish Environment Protection Agency ('SEPA'). This permit remains in force and now requires to be formally surrendered to SEPA. We have engaged RSK to assist us with the surrender process and have continued to utilise KPMG's internal health & safety specialists. We have also retained TRP's former Operations Director on an ad-hoc consultancy basis to provide any input that may be needed.

In support of the legal requirements for permit surrender, RSK have prepared reports for submission to SEPA, with the aim of determining that no change in site condition has occurred over the lifetime of the permit.

SEPA have provided their initial comments on the RSK reports and should be in a position to provide finalised comments on the reports by 30 June 2017. Once these comments have been received we will understand whether there are any further requirements to be completed by TRP before the permit can formally be surrendered.

Pre-administration rates appeal

In addition to the appeal for post-administration non-domestic rates, GVA have been appointed to lodge a non-domestic rates appeal in respect of pre-administration rates. This could potentially result in further rates refunds and GVA are continuing negotiations with the Rates Assessor. At this stage, the likelihood of success remains unclear.

5 Joint Administrators' remuneration, outlays and disbursements

Time costs

From 27 October 2016 to 26 April 2017, we have incurred time costs of £345,385.00. These represent 908.2 hours at an average rate of £380.30 per hour.

We have attached (Appendix 3) an analysis of the time spent, the charge-out rates for each grade of staff and the expenses paid directly by KPMG for the period from 27 October 2016 to 26 April 2017. We have also attached our charging and disbursements policy.

Remuneration and outlays

During the period, fees of £3,300,000.00 plus VAT previously approved by the Creditors' Committee and creditors were drawn.

Outlays of £29,363.21 plus VAT have been paid during the period, which relate to the disbursements incurred for the period 27 April 2015 to 26 October 2016.

Disbursements

During the period, we have incurred disbursements of £986.86. Whilst the Committee has confirmed these may be drawn, none of these have yet been paid.

6 Future strategy

6.1 Future conduct of the administration

We will continue to manage the affairs, the business and the property of the Company in order to achieve the purpose of the administration. This will include but not be limited to:

- Completing the sale of the North and South sites and the subsequent payment of dividends to the Pension Scheme under its standard security;
- ingathering remaining sums due from pre appointment debtors, including (where necessary) progressing legal actions;
- liaising with SEPA with regard to the PPC permit surrender;
- pursuing the pre-appointment rates refunds in conjunction with our agents GVA;
- settling all outstanding expenses of the administration;
- facilitating the payment of a third and final interim dividend to TRP's unsecured creditors; and
- attending to all statutory and compliance matters.

6.2 Extension of the administration

The duration of an administration is restricted to 12 months from the date of commencement unless it is extended with the permission of creditors or the Court. The administration was previously extended for a period of 12 months to 26 April 2017.

A further 12 month extension has been granted by the Court on 25 April 2017. The administration is currently due to end on 26 April 2018 and will allow the outstanding matters referred to in section 6.1 to be progressed.

6.3 Future reporting

A further progress report will be provided to creditors on the next six month period ending 26 October 2017 within six weeks this date.

Appendix 1 Statutory information

Company information

Company name	Tullis Russell Papermakers Limited
Date of incorporation	21 May 1906
Company registration number	SC006195
Present registered office	20 Castle Terrace, Edinburgh, EH1 2EG

Administration information

Administration appointment	The administration appointment granted in Court of Session, P801 of 2015
Appointor	The Directors of the Company
Date of appointment	27 April 2015
Joint Administrators' details	Blair Nimmo and Tony Friar
Prescribed Part	The Prescribed Part is not applicable as the floating chargeholder had no outstanding debt at the date of the Administration appointment.
Functions	The functions of the Joint Administrators are being exercised by them individually or together in accordance with Paragraph 100(2)
Current administration expiry date	26 April 2018

Appendix 2 Joint Administrators' receipts and payments account

Tullis Russell Papermakers Limited - in Administration

Trading accounts

Statement of Affairs (£)	From 27/10/2016 To 26/04/2017 (£)	From 27/04/2015 To 26/04/2017 (£)	
	POST-APPOINTMENT SALES		
	Sales	21,602.62	11,973,800.52
	ROT settlement	-	165,393.91
	Miscellaneous income	-	5.00
		<u>21,602.62</u>	<u>12,139,199.43</u>
	PURCHASES		
	Purchases	(177.80)	(59,371.86)
		<u>(177.80)</u>	<u>(59,371.86)</u>
	OTHER DIRECT COSTS		
	Direct labour	(118,921.22)	(2,274,722.23)
		<u>(118,921.22)</u>	<u>(2,274,722.23)</u>
	TRADING EXPENSES		
6,285,000.00	Stock	156.21	(3,392.92)
	Electricity & Steam	(7,915.77)	(426,186.80)
	Rates	514,764.65	(315,094.34)
	Water rates	(4,713.90)	(318,303.05)
	Heat & light	-	(20,691.06)
	Lien payments	-	(1,269,668.06)
	Overseas import and sales taxes	-	(57,230.71)
	Telephone/Fax/IT	(87.48)	(93,097.18)
	Warehousing & distribution	(562.79)	(1,476,165.23)
	Professional fees	-	(1,151.00)
	HP/Leasing payments	(593.53)	(69,776.66)
	Hire of equipment	-	(11,564.43)
	Repairs and maintenance	(46,707.80)	(637,391.66)
	Sundry expenses	-	(356.80)
	Sales rebate	(336.18)	(133,373.08)
	Commission on sales	(174.13)	(66,981.50)
	Security costs	(37,838.79)	(293,614.41)
	Payroll processing costs	(898.80)	(15,654.10)
	Stationery & postage	-	(2,653.82)
		<u>415,091.68</u>	<u>(5,212,346.82)</u>
<u>6,285,000.00</u>	Trading surplus/(deficit)	<u>317,595.28</u>	<u>4,592,758.52</u>

Tullis Russell Papermakers Limited - in Administration
Trading accounts

Statement of Affairs (£)	From 27/10/2016 To 26/04/2017 (£)	From 27/04/2015 To 26/04/2017 (£)
FIXED CHARGE COSTS		
Agents'/Valuers' fees - secured land	-	(5,000.00)
	-	(5,000.00)
ASSET REALISATIONS		
	-	92,500.00
6,000,000.00	45,000.00	4,408,842.07
	-	4,250.00
200,000.00	-	-
1,458,000.00	-	85,616.98
	25,944.88	13,547,535.90
	2,608.95	2,608.95
	-	2.00
654,000.00	66.55	668,567.67
	-	154,903.50
	<u>73,620.37</u>	<u>18,964,827.06</u>
OTHER REALISATIONS		
	2,220.83	52,440.44
4,000.00	94.73	94.73
	-	47,153.01
6,285,000.00	317,595.28	4,592,758.52
	-	-
150,000.00	-	251,198.08
26,000.00	-	-
	11,000.00	51,154.23
	-	84,523.72
	<u>330,910.83</u>	<u>5,079,322.72</u>
COST OF REALISATIONS		
	-	(416.66)
	-	(1,188.18)
	(250.00)	(3,750.00)
	-	(1,768.37)
	-	(247.28)
	(920.00)	(11,062.70)
	(3,300,000.00)	(3,300,000.00)
	(29,363.21)	(29,363.21)
	(184.00)	(2,777.54)
	(118.81)	(32,985.65)
	(59,423.74)	(329,937.13)
	(112.19)	(40,403.43)
	(25,504.03)	(237,963.43)
	-	(140,644.39)
	(1,293.89)	(2,052.77)
	-	(432.28)
	-	-
	-	(2,825.00)
	(74,529.16)	(204,248.57)

Tullis Russell Papermakers Limited - in Administration
Trading accounts

Statement of Affairs (£)	From 27/10/2016 To 26/04/2017 (£)	From 27/04/2015 To 26/04/2017 (£)
Bank charges	(164.99)	(191,492.70)
Canadian GST/HST	(0.30)	(280,745.39)
	<u>(3,491,864.33)</u>	<u>(4,814,304.69)</u>
PREFERENTIAL CREDITORS		
PAYE income tax etc	(1,282.60)	(49,225.30)
Nat. ins. contributions	-	(11,538.29)
Employees' wage arrears	(5,216.50)	(289,929.08)
Employees' holiday pay	-	(28,398.91)
Preferential Distribution	11.51	(222,608.61)
	<u>(6,487.59)</u>	<u>(601,700.19)</u>
UNSECURED CREDITORS		
Trade & expense	(112,056.30)	(9,782,030.07)
Employees Wage Arrears	-	-
Lien payments	-	-
Corp tax etc/nonpref PAYE	(1,762.46)	(54,936.58)
Non-preferential NIC	(474.67)	(6,413.21)
	<u>(114,293.43)</u>	<u>(9,843,379.86)</u>
14,777,000.00	<u>(3,208,114.14)</u>	<u>8,779,765.05</u>
REPRESENTED BY		
Cash at Bank		8,766,194.97
Trade creditors		-
VAT receivable		14,623.96
Other		(1,053.88)
		<u>8,779,765.05</u>

Appendix 3 Joint Administrators' charging and disbursements policy

Joint Administrators' charging policy

The time charged to the administration is by reference to the time properly given by us and our staff in attending to matters arising in the administration. This includes work undertaken in respect of tax, VAT, employee, pensions and health and safety advice from KPMG in-house specialists.

Our policy is to delegate tasks in the administration to appropriate members of staff considering their level of experience and requisite specialist knowledge, supervised accordingly, so as to maximise the cost effectiveness of the work performed. Matters of particular complexity or significance requiring more exceptional responsibility are dealt with by senior staff or us.

A copy of "A Creditors' Guide to Administrators' Remuneration Scotland" from Statement of Insolvency Practice 9 ('SIP 9') produced by the Association of Business Recovery Professionals is available at:

[https://www.r3.org.uk/media/documents/technical_library/SIPS/Creditors' Guide to Administrators' Remuneration Scotland.pdf](https://www.r3.org.uk/media/documents/technical_library/SIPS/Creditors'_Guide_to_Administrators'_Remuneration_Scotland.pdf)

If you are unable to access this guide and would like a copy, please contact Nick McGlinchey on 0131 527 6942.

Hourly rates

Set out below are the relevant hourly charge-out rates for the grades of our staff actually or likely to be involved on this administration. Time is charged by reference to actual work carried out on the administration, using a minimum time unit of six minutes.

All staff who have worked on the administration, including cashiers and secretarial staff, have charged time directly to the administration and are included in the analysis of time spent. The cost of staff employed in central administration functions is not charged directly to the administration but is reflected in the general level of charge-out rates.

Charge-out rates (£) for the administration of Tullis Russell Papermakers Limited				
Grade	From 01 Oct 2015	£/hr	From 01 Nov 2016	£/hr
Partner	595		625	
Director	535		560	
Senior Manager	485		510	
Manager	405		425	
Senior Administrator	280		295	
Administrator	205		215	
Support	125		131	

The charge-out rates used by us might periodically rise (for example to cover annual inflationary cost increases) over the period of the administration. In our next statutory report, we will inform creditors of any material amendments to these rates.

Policy for the recovery of disbursements

Where funds permit the officeholders will seek to recover both Category 1 and Category 2 disbursements from the estate. For the avoidance of doubt, such expenses are defined within SIP 9 as follows:

Category 1 disbursements: These are costs where there is specific expenditure directly referable to both the appointment in question and a payment to an independent third party. These may include, for example, advertising, room hire, storage, postage, telephone charges, travel expenses, and equivalent costs reimbursed to the officeholder or his or her staff.

Category 2 disbursements: These are costs that are directly referable to the appointment in question but not to a payment to an independent third party. They may include shared or allocated costs that can be allocated to the appointment on a proper and reasonable basis, for example, business mileage.

Category 2 disbursements charged by KPMG Restructuring include mileage. This is calculated as follows:

Mileage claims fall into three categories:

- Use of privately-owned vehicle or car cash alternative – 45p per mile.
- Use of company car – 60p per mile.
- Use of partner's car – 60p per mile.

For all of the above car types, when carrying KPMG passengers an additional 5p per mile per passenger will also be charged where appropriate.

We have incurred the following disbursements (excluding VAT) during the period 27 October 2016 to 26 April 2017.

SIP 9 - Disbursements					
Disbursements	Category 1		Category 2		Totals (£)
	Paid (£)	Unpaid (£)	Paid (£)	Unpaid (£)	
Accommodation	80.54		NIL		80.54
External printing	283.34		NIL		283.34
Meals	15.81		NIL		15.81
Mileage	NIL		34.97		34.97
Postage	407.26		NIL		407.26
Sundry	2.02		NIL		2.02
Travel	162.92		NIL		162.92
Total	951.89		34.97		986.86

We have the authority to pay Category 1 disbursements without the need for any prior approval from the creditors of the Company.

Creditors' right to challenge our remuneration and outlays

We are not seeking approval for any further remuneration at present. However, should you wish to challenge the basis of our remuneration, the remuneration approved, or the outlays approved during the period covered by this progress report, you must do so by making an application to Court within eight weeks of the accounting period and no later than 21 June 2017 or within 14 days of receiving this progress report.

Applications by any creditor must be made with concurrence of at least 25% in value of unsecured creditors (including the creditor making the challenge).

The full text of the relevant rules can be provided on request by writing to Nick McGlinchey at KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG United Kingdom.

The key areas of work in the period have been:

Statutory and compliance	<ul style="list-style-type: none">■ collating initial information to enable us to carry out our statutory duties, including creditor information, details of assets and information relating to the licences;■ preparing statutory receipts and payments accounts;■ ensuring compliance with all statutory obligations within the relevant timescales.
Strategy documents, Checklist and reviews	<ul style="list-style-type: none">■ formulating, monitoring and reviewing the administration strategy;■ briefing of our staff on the administration strategy and matters in relation to various work-streams;■ regular case management and reviewing of progress, including regular team update meetings and calls;■ meeting with management to review and update strategy and monitor progress;■ reviewing and authorising junior staff correspondence and other work;■ dealing with queries arising during the appointment;■ reviewing matters affecting the outcome of the administration;■ allocating and managing staff/case resourcing and budgeting exercises and reviews;■ liaising with legal advisors regarding the various instructions, including agreeing content of engagement letters;■ complying with internal filing and information recording practices, including documenting strategy decisions.
Reports to creditors' committee	<ul style="list-style-type: none">■ providing written and oral updates to the Creditors' Committee regarding the progress of the administration and case strategy;■ arranging and chairing meetings of the Creditors' Committee.
Cashiering	<ul style="list-style-type: none">■ preparing and processing vouchers for the payment of post-appointment invoices;■ creating remittances and sending payments to settle post-appointment invoices;■ preparing payroll payments for retained staff, dealing with salary related queries and confirming payments with the employee's banks;■ reviewing and processing employee expense requests;■ reconciling post-appointment bank accounts to internal systems;■ ensuring compliance with appropriate risk management procedures in respect of receipts and payments.
Tax	<ul style="list-style-type: none">■ analysing and considering the tax effects of various sale options, tax planning for efficient use of tax assets and to maximise realisations;■ analysing VAT related transactions;■ dealing with post appointment tax compliance.
Shareholders	<ul style="list-style-type: none">■ responding to enquiries from shareholders regarding the administration.
General	<ul style="list-style-type: none">■ reviewing time costs data and producing analysis of time incurred which is compliant with Statement of Insolvency Practice 9.
Trading	<ul style="list-style-type: none">■ preparing cash flow statements to monitor the cash position;■ attending to supplier and customer queries and correspondence;■ raising, approving and monitoring purchase orders and setting up control systems for costs incurred;■ ensuring that Mill Site related purchase orders were cancelled following site exit;■ ensuring ongoing provision of emergency and other essential services to the Mill Site, for the period of occupation.

Asset realisations	<ul style="list-style-type: none"> ■ collating information from TRP's records regarding the assets; ■ liaising with agents regarding the sale of assets; ■ reviewing outstanding debtors and management of debt collection strategy; ■ communicating with debtors; ■ seeking legal advice in relation to book debt collections, including Paperlinx.
Property matters	<ul style="list-style-type: none"> ■ liaise with Pension Scheme trustees regarding the strategy for realising the freehold land over which it holds security.
Health and safety	<ul style="list-style-type: none"> ■ liaising with internal health and safety specialists in order to manage all health and safety and environmental issues, including ensuring that legal and licencing obligations are compiled with; ■ liaising with the Health and Safety Executive regarding the administration and ongoing health and safety compliance.
Open cover insurance	<ul style="list-style-type: none"> ■ liaising with the post-appointment insurance brokers to provide information, assess risks and ensure appropriate cover in place; ■ assessing and managing the level of insurance premiums.
Employees	<ul style="list-style-type: none"> ■ dealing with employee redundancies; ■ dealing with queries from retained and redundant employees regarding various matters relating to the administration and their employment; ■ dealing with statutory employment related matters, including statutory notices to employees and making statutory submissions to the relevant government departments; ■ holding employee briefing meetings to update employees on progress in the administration and our strategy; ■ administering payroll, including associated taxation and other deductions, and preparing PAYE and NIC returns; ■ communicating and corresponding with HM Revenue and Customs; ■ dealing with issues arising from employee redundancies, including statutory notifications and liaising with the RPO; ■ managing claims from employees; ■ ensuring security of assets held by employees.
Pensions	<ul style="list-style-type: none"> ■ collating information and reviewing TRP's pension schemes; ■ calculating employee pension contributions and review of pre-appointment unpaid contributions; ■ ensuring compliance with our duties to issue statutory notices; ■ ensuring death-in-service cover for employees remains in place; ■ communicating with employee representatives concerning the effect of the administration on pensions and dealing with employee queries.
Creditors and claims	<ul style="list-style-type: none"> ■ creating and updating the list of unsecured creditors; ■ responding to enquiries from creditors regarding the administration and submission of their claims; ■ reviewing completed forms submitted by creditors, recording claim amounts and maintaining claim records; ■ agreeing preferential and unsecured claims; ■ arranging distributions to the preferential and unsecured creditors; ■ drafting our progress report.

Time costs

SIP 9 – Time costs analysis (27/10/2016 to 26/04/2017)

	Hours				Time Cost (£)	Average Hourly Rate (£)	
	Partner / Director	Manager	Administrator	Support			Total
Administration & planning							
Cashiering							
Fund management			0.70		0.70	206.50	295.00
General (Cashiering)		2.40	28.80		31.20	9,086.00	291.22
Reconciliations (& IPS accounting reviews)		2.50	16.30		18.80	6,083.50	323.59
General							
Books and records			18.00		18.00	4,318.00	239.89
Fees and WIP	1.70		1.30		3.00	1,335.50	445.17
Statutory and compliance							
Appointment and related formalities			5.70		5.70	1,681.50	295.00
Checklist & reviews			5.30		5.30	1,553.00	293.02
Closure and related formalities			0.60		0.60	177.00	295.00
Strategy documents	11.70	7.00	4.10		22.80	11,299.00	495.57
Tax							
Post appointment overseas tax			0.30		0.30	88.50	295.00
Post appointment PAYE (Non Trading)			2.00		2.00	590.00	295.00
Post appointment VAT		5.20	5.40		10.60	4,134.50	390.05
Creditors							
Committees							
Meetings		5.80	12.50		18.30	6,645.50	363.14
Reports	15.40	26.60	20.20		62.20	28,149.00	452.56
Creditors and claims							
Agreement of claims		2.70	3.30		6.00	2,350.50	391.75
Agreement of preferential claims		6.60	0.30		6.90	3,454.50	500.65
Agreement of unsecured claims		8.80	154.40		163.20	49,937.00	305.99
General correspondence			33.00		33.00	9,550.00	289.39
Legal claims		7.70	3.00		10.70	4,791.00	447.76
Payment of dividends		39.50	43.10		82.60	32,859.50	397.81

SIP 9 – Time costs analysis (27/10/2016 to 26/04/2017)

	Hours				Total	Time Cost (£)	Average Hourly Rate (£)
	Partner / Director	Manager	Administrator	Support			
Statutory reports	18.80	14.70	24.70		58.20	25,229.50	433.50
Employees							
Agreeing employee claims		6.20	4.70		10.90	4,545.50	417.02
Correspondence	2.10	6.60	64.70		73.40	21,763.00	296.50
DTI redundancy payments service			2.40		2.40	708.00	295.00
Pension funds		0.30	0.80		1.10	389.00	353.64
Pensions reviews			1.80		1.80	531.00	295.00
Investigation							
Investigations							
Mail redirection			2.50		2.50	689.50	275.80
Realisation of assets							
Asset Realisation							
Debtors		3.30	14.50		17.80	5,960.50	334.86
Freehold property	18.10	17.90	3.20		39.20	20,201.50	515.34
Goodwill			0.10		0.10	21.50	215.00
Health & safety		75.90	2.00		77.90	34,489.00	442.73
Insurance		0.30	2.10		2.40	763.50	318.13
Other property matters	10.70	26.00	16.00		52.70	23,972.00	454.88
Other assets		1.30	1.20		2.50	1,017.00	406.80
Plant and machinery	2.40	22.70	2.20		27.30	13,487.50	494.05
Pre-appointment tax & VAT refunds		0.70			0.70	357.00	510.00
Vehicles			0.80		0.80	236.00	295.00
Cash & profit projections & strategy		3.50			3.50	1,785.00	510.00
Purchases and trading costs	1.10	7.90	22.10		31.10	10,949.00	352.06
Total in period	82.00	302.10	524.10	0.00	908.20	345,385.00	380.30

Brought forward time (appointment date to SIP 9 period start date)	10,511.75	3,821,124.50
SIP 9 period time (SIP 9 period start date to SIP 9 period end date)	908.20	345,385.00
Carry forward time (appointment date to SIP 9 period end date)	11,419.95	4,166,509.50

Appendix 4 Glossary

CMS	CMS Cameron McKenna Nabarro Olswang LLP
Group, the / TRG	Tullis Russell Group Limited
GVA	GVA Grimley Limited (property agents)
KPMG	KPMG LLP
Nexus	Nexus 5 SAS
Pension Scheme, the	The Tullis Russell pension scheme (in which TRP was the principal employer)
RSK	RSK Environment Limited (environmental agents)
TRP / Company, the	Tullis Russell Papermakers Limited - in Administration
WIP	Work in Progress

Any references in this progress report to sections, paragraphs or rules are to Sections, Paragraphs and Rules in the Insolvency Act 1986, Schedule B1 of the Insolvency Act 1986 and the Insolvency (Scotland) Rules 1986 respectively.

Appendix 5 Notice: About this report

This report has been prepared by Blair Nimmo and Tony Friar, the Joint Administrators of Tullis Russell Papermakers Limited – in Administration (the ‘Company’), solely to comply with their statutory duty to report to creditors under the Insolvency (Scotland) Rules 1986 on the progress of the administration, and for no other purpose. It is not suitable to be relied upon by any other person, or for any other purpose, or in any other context.

This report has not been prepared in contemplation of it being used, and is not suitable to be used, to inform any investment decision in relation to the debt of or any financial interest in the Company.

Any estimated outcomes for creditors included in this report are illustrative only and cannot be relied upon as guidance as to the actual outcomes for creditors.

Any person that chooses to rely on this report for any purpose or in any context other than under the Insolvency (Scotland) Rules 1986 does so at its own risk. To the fullest extent permitted by law, the Joint Administrators do not assume any responsibility and will not accept any liability in respect of this report to any such person.

Blair Carnegie Nimmo and Gerard Anthony Friar are authorised to act as insolvency practitioners by the Institute of Chartered Accountants of Scotland.

We are bound by the Insolvency Code of Ethics.

The Joint Administrators act as agents for the Company and contract without personal liability. The appointments of the Joint Administrators are personal to them and, to the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability to any person in respect of this report or the conduct of the administration.

www.kpmg.com

© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

For full details of our professional regulation please refer to 'Regulatory Information' at www.kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative.