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# **Tullis Russell Papermakers Limited - in Administration**

Joint Administrators' progress  
report for the period 27 April 2015  
to 26 October 2015

7 December 2015

# 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).**



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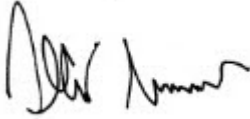
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# 1 Executive summary

- TRP's Directors resolved on 24 April 2015 to appoint Gerard Anthony Friar and I as Joint Administrators. The notice of appointment was lodged at Court of Session on 27 April 2015 and we were duly appointed.
- The background and events leading to the Administration were outlined in our Statement of Proposals ('proposals'), sent to all known creditors on 17 June 2015. A meeting of creditors was convened on 2 July 2015 to consider our proposals, at which the proposals were approved by the creditors with modification. This progress report covers the period from the date of our appointment to 26 October 2015.
- As previously reported, despite an extensive marketing exercise both pre and post administration, a sale of substantial parts of the business as a going concern was not achieved. A separate sales process for TRP's electrical crepe paper business was undertaken, resulting in a going concern sale of this operation. The sale completed on 24 September 2015 and the total consideration received was £0.4 million. (Section 2.2 – Asset Realisations).
- Plant and machinery agents were appointed to sell all of TRP's tangible assets. Funds of £1.0 million have been received in the period. (Section 2.2 – Asset Realisations)
- A sales agent was appointed to sell the TRP Brands and intangible assets. Three of the brands have now been sold, achieving realisations of £0.1 million. (Section 2.2 – Asset Realisations)
- All stock, which was not subject to retention of title claims, has now been sold. To date, £9.8 million has been received, representing a considerable cash inflow for the administration and a result in excess of initial expectations (Section 2.2 – Asset Realisation)
- Book debts totalling £13.5 million have been recovered to date, which after accounting for customer entitlements to certain discounts and rebates, and excluding insolvent customers, represents a recovery of over 90% of the opening ledger. (Section 2.2 – Asset Realisation)
- As previously reported, TRP provided standard securities over two areas of freehold land in favour of the Pension Scheme up to a maximum of £13.5 million. TRP had no other outstanding secured debt. (see Section 3.1 – Secured creditors)
- We expect that TRP's preferential creditors will be paid in full. (see Section 3.2 – Preferential creditors)
- We anticipate that unsecured creditors will receive a dividend, however, the amount and timing of such a dividend is currently uncertain, albeit we hope to facilitate an interim dividend by mid 2016. (see Section 3.3 – Unsecured creditors)
- The administration is currently due to end on 26 April 2016. However, in light of the significant number of outstanding matters, this progress report accompanies a request to all creditors to consider a 12 month extension to 26 April 2017 (Section 6.3 – Future strategy).

- Please note: you should read this progress report in conjunction with our proposals which were issued to the Company's creditors and can be found at <http://www.insolvency-kpmg.co.uk/case+KPMG+TF427D5259.html>. Unless stated otherwise, all amounts in this progress report and appendices are stated net of VAT.



Blair Nimmo  
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 proposals.

### 2.1 Strategy and progress to date

#### Strategy

Prior to the administration, TRP's directors had attempted to identify a buyer for the Company, however were unsuccessful in doing so. As a result, TRP had ceased the manufacturing of paper prior to our appointment, with only finishing and conversion processes remaining operational.

As detailed in the proposals, although the directors had already marketed TRP for sale, we undertook a further exercise in the initial days and weeks of the administration to ascertain whether a going concern sale of all or significant parts of TRP's business and assets could be achieved. It was hoped that the prospect of a business and assets sale, as opposed to a share sale, may generate new (or renewed) interest in TRP.

We set a closing date for indicative offers for 18 May 2015. Unfortunately, however, no party submitted an offer, which reaffirmed the lack of interest in the business experienced prior to our appointment.

As reported in our proposals, with no prospect of a going concern sale, our strategy and focus in the administration turned to implementing an orderly wind down and piecemeal realisation of TRP's assets. Specifically, our overall strategy, which is consistent with that set out in the proposals, has been to:

- Reduce TRP's cost base to a level commensurate with the reduced operational activity;
- Assist redundant employees with making 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.

The discrete areas referred to above are considered in detail within this report.

### 2.2 Asset realisations

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

Summaries of progress made in relation to the most significant asset classes, including amounts realised, during the period are provided below.

## Freehold property

TRP owns two areas of freehold land situated to the North and South of the paper making facility in Markinch. As noted in Section 4.1, both areas of land are secured to the Pension Scheme. Maximising realisations from the disposal of these assets will reduce the Pension Scheme's residual unsecured claim in the administration, which will be of benefit to the general body of unsecured creditors.

### North Site

The North site is an area of 11.79 acres of undeveloped land, which was valued by GVA in 2013 on the basis that it would be suitable for residential property development. The land was marketed for sale prior to our appointment, however, no purchaser with the ability to complete a transaction at the valuation level was identified.

Since the administration, our work in relation to this land has focused on identifying and understanding the options for the site, including liaising with GVA who have been retained as property agents. We are working with GVA and planners to undertake a site feasibility study, with the aim of identifying the best way of dealing with matters such as site access and local transport, thereby improving the prospects of the site obtaining planning permission for residential development and, in turn, maximising asset value. Once this exercise is complete, a sales and marketing exercise will commence. In order to ensure commercial negotiations are not prejudiced, at this stage we are unable to provide an indication of the North site's potential value.

### South Site

The South site is understood to have been a former operational area comprising 10.6 acres which was previously cleared of building structures. The site is immediately adjacent to the Queensgate Estate, which is mixed in character, providing a range of industrial and commercial occupiers including food and non-food retail accommodation.

GVA had been advising TRP prior to administration in relation to the South Site and made us aware of the urgent need to progress the sale of this site, where terms of sale were well advanced with Ediston. We engaged with GVA who stated that their advice was to proceed towards completing a transaction with Ediston. Given GVA's sector experience, that a competitive and recent marketing process had been undertaken by then, and that Ediston's offer was in line with GVA's valuation and approved by the secured creditor, we agreed to the sale and a conditional missive was concluded with Ediston on 22 May 2015.

The longstop for completion was 30 November 2015, however due to a delay in securing a variation to the existing site planning consent, Ediston were unable to purify the missives by this longstop date. We are pleased to advise that following discussions and representations to Fife Council's planning committee, the change in planning consent was granted on 18 November 2015, this has removed an obstacle that had prevented Ediston taking steps to purify the missives.

We are currently negotiating an extension to the timetable for completion of the missives with Ediston. As the land sale has not yet concluded, the value of the South Site at this stage is commercially sensitive and has not been disclosed.

## Leasehold property

The main operational premises in Markinch were previously owned by TRP. In March 2014, TRP sold the paper mill site plus an adjacent area of land to Group for £11.05 million. This sales price matched a valuation of the properties carried out by James Barr (now part of GVA) in August 2013.



Given the proximity of the transaction to the administration, the fact it was to a connected party, and following a number of enquiries at the creditors meeting on 2 July 2015, we instructed independent solicitors Gateley (Scotland) LLP ('HBJ') to review the sale. HBJ have provided confirmation that, based upon all available information, they do not consider there to be grounds for challenging the transaction and they did not identify any other concerns relating to the transaction.

Following the sale of the properties to Group, TRP has continued to occupy and utilise the premises. No formal lease was put in place and no rent was paid by TRP to Group. This has remained the case post our appointment.

### Plant and machinery

As previously reported, TRP owns a wide range of specialist papermaking plant and equipment, and other tangible fixed assets. As a purchaser for TRP's business and assets as a going concern was not identified, we engaged John Wilkie and GMG via a joint agency agreement to market and sell TRP's plant and machinery on a piecemeal basis. With the assistance of TRP's retained employees and our agents, a decommissioning programme has been implemented to mothball and preserve the plant and equipment pending it being sold.

A large aspect of ensuring maximum value is achieved from the plant and machinery assets has been the collation of all relevant documentation, history, machine specifications etc. in order for this to be made available to interested parties. Many of TRP's machines are highly specialised and bespoke, therefore ensuring the retention of the relevant employee expertise has been a key factor in preparing plant and machinery for sale.

Due to the complexity, size and disparate nature of the plant and machinery, ensuring all Health, Safety and Environmental ('HSE') procedures have been adhered to during the administration has been crucial, particularly as numerous third party site visits have occurred as interested parties have viewed TRP's assets.

At the outset of the administration, KPMG's Global Sustainability Services team, with the assistance of TRP's retained staff, reviewed TRP's HSE documentation and implemented processes and procedures regarding the dismantling and removal of items of plant and equipment from site. We are pleased to report that these have been fully complied with and that no HSE issues have arisen during the period covered by this report.

### Realisations to date

Plant and equipment realisations to date total £1.0 million, as shown in Figure 1 below.

Figure 1: Plant & machinery realisations	
£000	From 27 Apr 2015 To 26 Oct 2015
Sales by private treaty	472
Online auction sales	205
Sales relating to Electrical Crepe Paper business	325
	<b>1,002</b>

Source: Joint Administrators' records

Realisations from the sale of plant and equipment associated with the Electrical Crepe Paper Business are discussed in further detail below. We would, however, note that the price achieved for this plant and machinery was 8% higher than the upper range of our agents' original valuation.



Private treaty sales of finishing and conversion equipment have realised £0.3 million. The main items that have been sold include a Beilomatic Folio Ream Wrapper, MSK Pallet Shrink Wrap Line, Henderson Embosser and Marquip Sheeter. With the exception of the Beilomatic Folio Ream Wrapper, these items have now all been dismantled and removed from site by purchasers' contractors in a safe and controlled manner, overseen by TRP's retained staff. We are awaiting a removal date for the Beilomatic Folio Ream Wrapper. In aggregate, the realisations of finishing and conversion equipment are more than 50% above our agents' original lower range valuation of these items and only 1% below the original higher range valuation, representing a very positive outcome.

During the work undertaken to marshal assets and prepare for the online auction, a large quantity of small ancillary items were identified across the mill site, which had not been included in our agents' original inventories and valuations, but which nevertheless had value. These included items such as laboratory and testing equipment as well as a quantity of electrical motors and spare parts. Private treaty sales of these items have realised a further £0.2 million for the administration estate.

### *On-line auction*

In addition to the large items of plant and machinery, TRP also had a large quantity of other smaller moveable assets, including the contents of engineering workshops and stores. In conjunction with our agents, we decided that the best strategy for realising these items would be by way of an on-line auction, which was held in September 2015.

Over 2,100 parties viewed the auction website (hosted by our agents) and approximately 250 parties visited the site at Markinch during the three viewing days. A total of 226 parties registered for the online auction and over 5,000 bids were received. The online auction realised net proceeds of £0.2 million, which is in excess of our agent's initial ex-situ valuation of these items. All sold lots have now been removed from site.

The strategy for selling TRP's remaining plant and machinery is considered in Section 6.

### **Book debts**

At the date of our appointment, TRP's gross book debts (excluding intercompany debts which were eliminated by valid contra claims) totalled £16.9 million, spread across 300 individual customers. As previously advised, TRP operated a confidential invoice discounting facility with LBCF who had an assignment over TRP's debtor balances. There were no outstanding amounts due to LBCF under this facility at the date of our appointment.

In the early stages of the administration, a substantial amount of time and effort was invested in ensuring all documentation relating to customer debts was available to us, as in any insolvency situation this is key to maximising recoveries.

Given the importance of debtor recoveries to the overall financial outcome of the administration, we retained key TRP staff (customer account managers, credit controller, key members of the finance team, quality control etc.) to assist us. This ensured a degree of continuity for customers, with systems knowledge, technical expertise and language cover (for overseas customers) retained. These actions maximised efficiencies and reduced costs by using TRP staff to undertake the more labour intensive aspects of credit control.

Although TRP's debtor balances related to the sale of goods and were not contractual in nature, the collection of debtors has, nonetheless, been extremely challenging. Specific issues which have had to be considered and resolved include:

- Ascertaining whether customer claims for deductions (for example, rebates, volume discounts, marketing contributions etc.) were legitimate;

- Extensive discussions with customers regarding their concerns over how future quality issues with stock already purchased would be dealt with;
- Various issues relating to the treatment of international sales taxes and import duties;
- Negotiating with customers who had debtor balances but who also had outstanding orders that, as a result of the administration, could no longer be fulfilled;

To assist with collections, we made it a pre-requisite, of any post appointment stock sales made to customers during the administration (see the "Stock" section below), that before accepting new orders customers had to commit to settling their outstanding debtor balance in full and on time. This involved negotiating and implementing written agreements with many of TRP's customers.

Additionally, for those customers who did not acquire stock post appointment, we issued numerous stages of written correspondence in pursuit of their debts, combined with extensive email and phone dialogue with customers via TRP's retained staff and also directly with the administration team. For certain customers where we have been unable to recover balances which we consider to be legitimately due, we are now working with specialist debt recovery agents to pursue payment.

As at 26 October 2015, debtor realisations totalling approximately £13.5 million have been achieved. Taking into account customer rebate entitlements which were not reflected in the opening ledger (these were included as corresponding creditor balances), this represents realisations in excess of 90% of debtor balances. Whilst the debtor collection exercise remains ongoing, the level of recoveries achieved to date exceeds what was anticipated at the outset of the case. This is an extremely positive outcome for the administration, as debtor recoveries in any insolvency can be highly uncertain.

We will continue to pursue all remaining debts, via the legal process if necessary, whilst it remains cost effective to do so.

### *Paperlinx*

At the date of our 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 £1.1 million. As advised in the proposals, 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 has 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 been in discussions with Atradius regarding TRP's claim and have also sought guidance from our lawyers CMS on this matter. Discussions with Atradius to progress the claim remain ongoing.

Following TRP's administration, we also made contact with Deloitte LLP, who are dealing with the Paperlinx Group administration cases in the UK, to make them aware of TRP's Retention of Title ('RoT') claim over stocks supplied. Through the successful enforcement of TRP's RoT claim, over approximately 570 tonnes of stock, the debt owed by the Paperlinx Group has been partially mitigated via stock sales, resulting in the recovery (and corresponding reduction the Paperlinx Group debt) of £0.2 million.

### WIP and finished goods

Upon our appointment, TRP had approximately 11,500 tonnes of finished goods stock and 3,000 tonnes of WIP, which could potentially be converted into finished goods. A number of TRP's operatives and technical staff were retained to assist with finishing, converting and packing process in order to maximise the potential value of WIP. Similarly, staff from TRP's sales, logistics and invoicing teams were retained to support the sale of stock to customers and manage its distribution.



### *Lien claims*

As previously advised in our proposals, prior to our appointment, TRP utilised the services of a number of third party warehousing providers both in the UK and overseas. TRP's main warehousing and haulage provider, DSV Road Limited ('DSV'), had approximately 6,500 tonnes of TRP's finished goods stock in its possession and a *prima facie* purchase ledger debt of approximately £2.5 million.

Following notification of TRP's insolvency, DSV intimidated that it wished to enforce a lien claim over the TRP stock in its possession. Our lawyers, CMS, confirmed that DSV was entitled to take this action and had a legally valid lien. Without access to the stock held and the extensive distribution support provided by DSV, our ability to achieve maximum value for TRP's stocks would have been greatly reduced.

Consequently, and after a period of negotiation with DSV, we reached a settlement agreement to allow TRP's stock to be released. Similar agreements were also reached with TRP's other warehousing providers in Holland, Canada and the USA, albeit the stock held by these parties and the level of their debts was substantially lower than DSV.

As shown in our receipts and payments account at Appendix 2 (included with "Warehousing & Distribution"), payments in settlement of lien claims totalled £1.3 million. The level of realisations from sales of the stock that settling lien claims has allowed has been considerably in excess of the payments made to warehousing providers.

### *Stock sales*

At the outset of the administration, our strategy in relation to selling paper stocks was to avoid wholesale discounts unless absolutely necessary, and, as much as possible, to utilise TRP's existing sales infrastructure and network of customers to sell stock in the ordinary course of business.

This involved extensive discussions and negotiations with TRP's customers regarding pricing and terms, particularly as many of the larger customers (for whom TRP produced bespoke products) had sought alternative suppliers upon learning of the administration. Selling the stock to its intended recipient (as opposed to selling for broke/recycling) had a substantial financial upside, hence significant efforts were expended pursuing sales.

Key areas which have contributed to the outcome from sales of stock include:

- Regular meetings with TRP's retained sales and logistics staff;
- Utilising TRP's existing network of third party sales agents;
- Maximising the potential for stock sales by distributing lists of available stock extensively, both in the UK and internationally;
- Numerous customer conference calls/meetings to negotiate terms of sale;
- Seeking legal advice regarding the sale of branded products;
- Obtaining agreements with customers to secure the sale of certain substantial holdings of bespoke stock items;
- Where stock sales through existing channels were not achievable, obtaining the best possible price through "broke" paper merchants.

Following the conversion of WIP to finished goods, all stock on hand at the commencement of our appointment has now been sold and to date, cash totalling £9.9 million has been received in respect of completed sales. We continue to ingather the debts due from a small number of customers in respect of post appointment stock sales.

## Raw Materials and RoT

TRPL sourced raw materials such as wood pulp, chemicals, packaging products, machinery and spare parts from all over the world. Following notification of the administration, 65 suppliers submitted RoT claims over goods supplied prior to our appointment but not paid for by TRP.

The process for resolving RoT claims involved organising site visits to inventory materials and liaising with suppliers to ingather (and assess) documentation relating to their claims. Each claim had to be evaluated to determine validity before the claim was accepted or rejected. This process has now been completed and we do not anticipate any further RoT claims.

In total, 28 RoT claims were accepted in full and in these cases we allowed the suppliers to uplift their goods from site. The remaining 37 were either rejected on the basis of insufficient documentation or lack of identification, or were ultimately not pursued by the supplier.

For those instances where RoT claims have been accepted, we have insisted that the appropriate credit notes be provided by the supplier and that their claim lodged in the administration be adjusted appropriately. Credit notes in respect of 25 of the agreed claims have been received, agreed and processed. The remaining three are being progressed.

In addition to the above, a number of suppliers had consignment stock agreements with TRPL. These were reviewed and where appropriate the supplier was permitted to uplift their goods.

## Cash at bank

At the date of our appointment, TRP had cash balances in its bank accounts totalling approximately £0.6 million. We arranged for these amounts to be transferred to the administration bank accounts.

## Other assets

### *Brand names/intellectual property*

As noted in the proposals, TRP owned several brand names, which were protected by a number of registered trademarks in the countries the business operated in across the world. In addition, certain brand names were supported by intellectual property such as furnishes and production know-how.

*Trucard* was TRP's most prominent brand name, accounting for approximately 60% of revenues and representing the broadest range of SBS carton board on the market. Other key brand names included *Advocate*, *Naturalis* and *Mellotex*, which were used for graphical papers with applications such as corporate stationery, annual reports, brochures and presentation materials.

Following our appointment, in conjunction with TRP staff, an inventory of brand names and intangible assets was prepared, together with a list of potential interested parties to contact. We then produced a sales flyer outlining the TRP brand names available for sale and issued this to approximately 80 parties. Nine parties signed Non-Disclosure Agreements and received an Information Memorandum containing further information on each brand such as sales histories and volumes, etc.

A closing date for offer of 8 June 2015 was set, and four offers for individual brand names were received. We subsequently concluded a sale of the *Naturalis* brand name and associated paper stock.

Disappointingly, the overall level of offers received for the brand names at the initial closing date was lower than hoped, primarily as the majority of TRP's customers, including merchants, distributors and end users, had quickly entered into alternative supply arrangements when TRP entered administration. TRP's products were not unique and there were competing paper brand names available from other suppliers in the market with similar technical specifications and properties to TRP's products.

In an attempt to drive additional value from TRP’s remaining brands and intangible assets, we engaged Metis Partners to assist with the process. Metis created a database of over 170 potentially interested parties via thorough market research. Their database included UK and international paper and board manufacturers as well as businesses involved in packaging.

Metis also contacted members and associates of various relevant trade bodies including the European Association of Cartonboard Manufacturers, the Paper and Board Association, and the Confederation of Paper Industries. A shortened marketing brief was also sent to the Metis database of over 2,000 contacts, IP brokers and intermediaries (e.g. accountants and lawyers), with the aim of establishing whether any of these contacts in turn had clients who may have wished to receive the sales correspondence. Metis advertised the opportunity extensively, carrying out social media marketing activities and website placement, and also drafted and distributed a press release, which helped to publicise the opportunity in the national and trade press.

As a result, a sale of three further brand names was successfully achieved.

**Figure 2: Brands and intangible asset realisations**

	From 27 Apr 2015 To 26 Oct 2015
£000	
<b>Brand</b>	
Naturalis	65
Advocate	18
Gemini and Trucard	10
	<b>93</b>

Source: Joint Administrators’ records

In addition to the consideration attributed to the brand name, the sale of the *Naturalis and Advocate* brands secured the sale of all remaining *Naturalis* and *Advocate* paper stocks (approximately 137 tonnes), wrappers, packaging, furnishes (paper recipes/specifications) and sample books. This resulted in additional stock realisations of £0.2 million, which without the brand sales may not have been achieved.

#### *Electrical crepe paper business*

TRP operated an electrical crepe paper business, which converted externally sourced base paper into reels and coils of high specification creped material used as an insulator for high voltage electrical cables and transformers. Whilst not a separate legal entity, for all other intents and purposes the business, referred to as IPAC, was operated as a standalone division within TRP. IPAC sold approximately 300 tonnes of electrical crepe paper per annum, generating turnover in excess of £1.0 million per annum and double digit gross margin.

As IPAC was recognised as being cash generative and was largely autonomous from TRP’s wider business, we continued trade the business whilst seeking a buyer for the business and assets as a going concern.

In an effort to identify a purchaser for IPAC and generative competitive tension to maximise asset realisations, we prepared a sales flyer with highlights of the business and issued this to eight parties who operated in this niche market. Five of these parties signed Non-Disclosure Agreements and received an Information Memorandum containing further information on the business with three of these parties conducting site visits to view the operation and meet the staff.

We set a closing date of Monday, 8 June 2015 for offers for the business, at which point three offers of varying value and form were received. Following a period of review, we sought to clarify certain

aspects of the offers with interested parties, primarily around conditionality, timescales for completion of a transaction, and source/proof of funding.

On 13 July 2015, following the payment of an exclusivity deposit of £65,000, we appointed Munksjo Paper AB ("Munksjo") as preferred bidder for the business (Munksjo were a direct competitor of TRP's electrical crepe paper business). Munksjo's offer was based on an assets only sale and it was their intention to relocate the assets (and production) to their paper mill at Jönköping in Sweden, with the remaining IPAC employees being made redundant once the assets had been transferred.

Munksjo commenced a period of detailed due diligence, including visiting the site to meet with IPAC employees and certain of TRP's sales and administrative staff who were involved with this business. On 29 July 2015, Munksjo advised that they wished to significantly reduce their offer price. This reduction in price and reasons stated were unacceptable to us and we therefore terminated discussions with Munksjo at the expiry of the exclusivity period on 31 July 2015. The exclusivity deposit of £65,000 was retained, which was more than sufficient to cover the costs incurred while negotiating the sale with Munksjo.

Whilst the situation with Munksjo was disappointing, with other offers having been received at the original closing date, we reverted to the under-bidder, Glenrothes Paper Limited ('GPL'), to confirm whether they remained interested in acquiring the business and assets.

GPL is a consortium of (prior to completion of the sale) current and former TRP employees, together with external investors. GPL submitted a revised offer on 10 August 2015. After a period of further negotiation, Heads of Terms were agreed and GPL paid a non-refundable deposit of £25,000 on 24 August 2015. GPL was formally appointed as preferred bidder at this time.

Discussions were then able to continue with GPL with a view to agreeing the Sale and Purchase Agreement. Concurrently, GPL sought the required funding to purchase the business and assets, and to provide sufficient working capital for the new business. GPL also required to negotiate a lease with Group, setting out the basis on which they would continue to occupy part of the site post-completion.

This resulted in additional delays and, in order to provide a degree of protection over the costs being incurred, we requested a second non-refundable deposit from GPL. A further £25,000 was received on 11 September 2015, which allowed us to commit to purchasing more raw materials and keep the IPAC business trading.

A sale to GPL was eventually completed on 24 September 2015 for a total consideration of £0.35 million. The transaction helped to preserve the jobs of the eight remaining employees involved in the IPAC business, who transferred to GPL under TUPE regulations. The transfer of these employees also helped to mitigate any claims for redundancy and pay in lieu of notice that these employees may have had which, given their long length of service with TRP, could have been significant.

Including the exclusivity deposit paid by Munksjo, the total consideration received for the electrical crepe paper business was £0.41 million. The price paid for the plant and equipment was greater than our agent's break-up value of the assets, with GPL also paying full cost price for all stock and work in progress based on a full physical stock count undertaken at completion. A summary of the consideration allocation is shown below in order that this can be compared to our receipts and payments account at Appendix 2.



### Figure 3: Sale of the electrical crepe paper business

£000	From 27 Apr 2015 To 26 Oct 2015
Munjsko deposit	65
Plant and machinery	259
Finished goods stock	39
WIP	44
Sundry stocks/consumables	3
Office furniture and equipment	4
	<b>414</b>

Following completion of the sale, steps have been taken to deal with all accounting and cut-off issues, including the segregation of accounting and IT systems.

#### Other Matters

##### *Health and Safety*

As reported in the proposals, we notified the Scottish Environment Protection Agency ('SEPA'), the Health & Safety Executive and the local council of our appointment. Key staff members with the relevant experience, qualifications and knowledge were retained by us to ensure that standards under certain licences and permits are maintained during the administration process.

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

##### *VAT and sales taxes*

TRP has VAT/sales and import tax registrations in Germany, Canada and the Netherlands, as well as the UK. To assist with submissions and reports to relevant overseas authorities we engaged the following agents:

Germany – Mundhenke & Partner

Canada – KPMG Inc (a member of the KPMG network of independent firms)

Netherlands – Meijburg & Co (a member of the KPMG network of independent firms)

Since the commencement of the administration we have complied with all local filing and (where applicable) payment requirements in relation to sales taxes.

At the commencement of the administration, a specific issue in relation to TRP's trading in Canada was identified. Under Canadian Law, the insolvency of a UK company is not automatically recognised and, as such, a Canadian creditor could still take enforcement action in that country (i.e. the protections of a UK administration would not apply). In practical terms, for the administration of TRP, this could have resulted in a creditor seeking to take possession of TRP stock located in Canada and/or obtaining an order for debtor receipts from Canadian customers to be diverted to the creditor.

TRP had substantial stock holdings in Canada (in excess of 2,000 tonnes) and significant debtor sums due. In order to protect TRP's assets for the benefit of all TRP's creditors, it was therefore essential that the ability for a Canadian creditor to take enforcement action be mitigated.

KPMG Inc who, as noted above, were assisting with the submission of returns to the Canadian Revenue Authority, advised that in similar scenarios they had experienced in the past, applying to the Canadian Court to have a foreign insolvency recognised would be the primary means to prevent such action by a creditor. Accordingly, we engaged Canadian lawyers (McCarthy Tétrault LLP ('McCarthy')) to assist us.

McCarthy advised that an application should be made to the Canadian Court under provisions contained in the Canadian Bankruptcy and Insolvency Act, which would effectively result in the UK administration of TRP (and the protections this provides) extending to Canada. Accordingly, various submissions were made to the Ontario Superior Court of Justice ('OSJC') and on 14 July 2015, the OSJC issued orders formally recognising the UK administration of TRP. Under the terms of the order granted, we (through our Canadian advisors) are required to provide regular updates to the OSJC on the status of the administration. Whilst all of TRP's assets which were situated in Canada have now been realised, this reporting mechanism to the OSJC will remain in place for the duration of the administration.

### Investigations

We continue to review the affairs of TRP to ascertain if there are any actions which can be taken against third parties to increase recoveries for creditors, albeit no such actions have been identified to date.

We have complied with the relevant statutory requirements to provide information on the conduct of the Company's directors and any shadow directors to the Department for Business, Innovation and Skills. The contents of our submission are confidential.

## 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. This summary does not include costs which have been accrued and not yet paid.

### Employees

As previously advised, on our appointment we met with all staff and, as a consequence of the reduced trading activity, 325 of the workforce were immediately made redundant. Initially, 149 staff were retained to assist us with *inter alia* the following matters:

- the conversion of WIP and the paper finishing processes;
- sales, invoicing and logistics associated with the selling of paper stocks;
- onsite security;
- maintaining the onsite water treatment facility;
- site clearance and chemical removal;
- environmental considerations;
- payroll and Human Resources;
- finance and credit control;
- the decommissioning of plant and machinery;
- preparing plant and machinery and other assets for sale; and



- assisting with technical queries from interested parties.

As the administration process has progressed and the level of assets to realise has reduced, further redundancies have been made. As at 7 December 2015, there are currently 17 remaining employees.

The costs associated with paying employees are shown under the 'Direct labour' caption in Appendix 2 and total £1,462,463.

To assist staff who were made redundant at the start of the administration in making claims to the RPO for redundancy, holiday pay, and pay lieu of notice, we initially set up a processing centre at a site near TRP's main premises. All employees were invited to attend the centre and were guided through the online application process by specialists from the KPMG Employment Rights team. Whilst this process involved a significant amount of our staff's time, as a result all claimants who attended the centre had their claims processed and submitted to the RPO within five days of their redundancy.

We have continued this process throughout the administration to assist all staff who have subsequently been made redundant.

### Rates

The property occupied by TRP has a current rateable value of £2.0 million, which attracts a rates liability of approximately £1.0 million per annum. In order to minimise the costs of the administration, we have applied for Empty Property Relief for the first 12 months of the administration in respect of any unoccupied areas of the site. We have engaged GVA to assist in the negotiations with Fife Council and advise us on the best way to minimise the on-going liability. We have also taken steps to rationalise the occupation of the various site properties.

The expense of £346,164 shown in the receipts and payments account reflects the liability for the initial post appointment period and it is hoped that a significant reduction can be obtained going forward.

### Repairs, maintenance, HSE and site clearance

Costs of £0.4 million have been incurred primarily in relation to the following activities:

- Disposal of chemicals/radioactive sources

Due to the nature of TRP's manufacturing processes, there was a significant volume of regulated chemicals and numerous radioactive sources onsite. With the termination of papermaking, these regulated materials were required to be disposed of in a safe and controlled manner. We appointed specialist contractors to undertake the removal and disposal process. Where possible materials have been sold to reduce the disposal cost.

- Asbestos removal

The original onsite power station ceased operation in August 2013. The building is in poor condition and due to the existence of asbestos it presents a potential health and safety hazard to the site. Access to the power station has been restricted to properly trained personnel.

An area asbestos condition audit had been commissioned by TRP prior to our appointment, and we arranged for work highlighted in the report to be completed. In addition, to ensure the safety of all those entering the site, we commissioned monthly air quality inspections, all of which have to date proved satisfactory.

Due to water ingress, there is a danger that the asbestos in the power station will degrade over time and regular inspections are being undertaken. Where further work has been identified specialist contractors have been commissioned to undertake the necessary remedial work.

#### Warehouses and distribution

Costs of £1,428,040 were incurred in relation to the warehousing and distribution of TRP's stock. This expense represents a direct cost of selling the substantial levels of stock and WIP referred to above. As all paper stocks have now been sold, we do not anticipate any further significant costs in relation to warehousing and distribution.

#### Agents' fees

John Wilkie and GMG were engaged on a joint agency basis to market and sell TRP's plant and machinery. Our agents initially advised us that they were confident that the plant and equipment would be sold and removed from site by September 2016. We agreed a commission structure to incentivise John Wilkie and GMG based on the level of asset realisations linked to the time taken to sell the plant and equipment and clear the site, with the commission percentage reducing if the process extends beyond September 2016. To date, interim commission payments totalling £18,640 have been paid to our agents.

#### Solicitors' fees

Legal fees of £0.2 million have been incurred during the period. This is split:

- £0.1 million relating to general legal matters in the administration, such as: advice on lien claims; drafting of sales contracts; recognition of the administration in Canada; assistance with creditor contractual claims.
- £0.1 million relating to specific advice required in relation to the Pension Scheme certain TRP employees were members of (refer to Section 4 for details).

#### Other notable costs

The following additional costs have also been incurred during the period:

- £0.1 million for insurance of TRP's assets and liability cover etc. As assets are sold, the value insured reduces, which results in a reduction in the insurance premium.
- £0.3 million for power and steam costs. These costs primarily relate to the period of operating machinery to convert and finish WIP, and in the period the electrical crepe paper business traded under our control. Going forward, monthly usage should reduce significantly.
- £0.2 million for overseas sales taxes (primarily Canada). As noted above, TRP sold over 2,000 tonnes of paper stock in Canada, which incurred local taxes.

## 3 Dividend prospects

### 3.1 Secured creditor

As noted above, TRP granted standard securities in favour of the Pension Scheme over two areas of freehold land. 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 exceeds the value of its security. It is highly unlikely that realisations from the sale of the two areas of land will exceed the £13.5 million the Pension Scheme is entitled to, therefore there will be no surplus funds available to TRP's other creditors.

TRP granted an assignation of its trade debtors to LBCF in August 2012. LBCF had no outstanding debt at the date of our appointment.

TRP granted a floating charge over certain of its assets to BoS. BoS had no outstanding debt due by TRP, hence its floating charge has not crystallised and no amounts are due to BoS.

## 3.2 Preferential creditors

We estimate the amount of preferential claims to be £0.8 million of which £0.3 million has been settled to date. Preferential creditors comprise employees' claims for arrears of wages and accrued holiday pay. Based on current estimates, we anticipate that preferential creditors will be paid in full.

## 3.3 Unsecured creditors

### Dividend prospects

Based on current estimates, we anticipate that unsecured creditors will receive a dividend. The quantum and timing of any dividend will be dependent upon the final level of agreed creditors' claims and final asset relations, most notably from the sale of plant and machinery. Nevertheless, it is our intention to declare a partial interim dividend by mid 2016.

Creditors who have not yet submitted a claim should do so as soon as possible. A Statement of Claim form (Form 4.7 (Scot)) can be found at <https://www.insolvency-kpmg.co.uk/case+KPMG+TF427D5259.html>. Please note that in order for your claim to be admitted to rank for dividend purposes, Form 4.7 (Scot) must be completed and documentary evidence, to substantiate the amount of claim, attached. Should you require a hard copy, please contact Kylie Burgess on +44 (0) 131 451 7753. All claims can be submitted to the address noted at the top of our letter head or to [kylie.burgess2@kpmg.co.uk](mailto:kylie.burgess2@kpmg.co.uk).

### Adjudication process

We have commenced the process of adjudicating creditors' claims received. We will write to all creditors under separate cover regarding the level at which your claim has been agreed or otherwise.

Whilst the majority of claims have been verified to TRP's books and records, certain claims that do not simply correspond to purchase ledger balances require additional verification, including (where applicable) the input of our solicitors.

The current position in relation to unsecured creditors' claims is set out below in Figure 4. It should be noted that this is based on TRP's books and records and claims received to date. As a significant number of claims remain outstanding, the below table could change materially. In addition, Unite, who is recognised by TRP for collective bargaining purposes and who represent a significant proportion of the workforce, has raised a claim for failure to consult with the union and workforce prior to redundancy as is required under s188 of the Trade Unions and Labour Relations (Consolidation) Act 1992. This claim, which is being defended, has yet to go before the Tribunal and has not been admitted. It is, therefore, currently not possible to accurately estimate what impact this could have on the level of unsecured creditor claims.

**Figure 4: Unsecured creditor claims**

	Number	Claim (£000)	Agreed (£000)	Rejected (£000)
Agreed in full (including nil claims)	99	1,730	1,730	-
Partly agreed	6	92	53	39
Rejected in full	1	<1	-	<1
Held	63	32,487	-	-
Outstanding proofs	188	-	-	-
	<b>357</b>	<b>34,309</b>	<b>39</b>	<b>39</b>

Source: Joint Administrators' records

## 4 Other matters

### Pension Scheme

As advised within the proposals, at the time of the first statutory meeting of creditors on 2 July 2015, the Pension Scheme Trustees ('the Trustees') and Group were engaged in initial discussions regarding a potential rescue of the TRP portion of the Pension Scheme.

During July 2015, the Trustees and Group confirmed to us that an agreement in principle had been reached to work towards achieving a rescue of the Pension Scheme. Accordingly, we engaged specialist pensions lawyers to provide legal advice on the implication of a scheme rescue upon TRP and the general body of creditors. It was identified that, with appropriate safeguards in place, the rescue would have a neutral impact upon the general body of creditors and would potentially benefit individual creditors (specifically employees who were also Pension Scheme members). As such Group, the Trustees and the Joint Administrators committed to work together to facilitate the scheme rescue.

Since that time, the stakeholders have identified various challenges in facilitating the Pension Scheme rescue including, *inter alia*:

- considering whether Group/the Pension Scheme would be entitled to rank as a creditor following a rescue of the Pension Scheme and the point at which this entitlement would trigger;
- the implications for the Pension Scheme if TRP no longer had any employees who are members of the Pension Scheme; and
- the basis under which the Pension Scheme deficit would be calculated for the purposes of establishing the claim which Group/the Pension Scheme would have following a rescue.

Whilst we are very hopeful that all of these challenges will be overcome, it is taking considerable time and effort to deal with these complicating factors and to agree the underlying mechanics and legal paperwork to facilitate the rescue. Throughout this process, we have provided periodic updates to the Pension Protection Fund ('PPF'), as the PPF assessment period remains in force until such time as the rescue is formally confirmed.

In mid-November 2015, a series of legal documents were prepared, which we hope will be approved by the Trustees, Group and ourselves to formalise the mechanics of the Pension Scheme rescue. We are hopeful that the Pension Scheme rescue will be formally confirmed in the first quarter of 2016.

## 5 Joint Administrators' remuneration and outlays and disbursements

### 5.1 Joint Administrators' remuneration, outlays and disbursements

#### Time costs

From the date of our appointment to 26 October 2015, we have incurred time costs of £2,374,373.00. This represents 6,459.30 hours at an average rate of £ 367.59 per hour. As reported following the meeting of TRP's creditors on 2 July 2015, our basis of remuneration has not yet been agreed.

#### Disbursements

During the period, we have incurred disbursements of £26,631.30. None of these have yet been paid.

#### Additional information

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 our appointment to 26 October 2015. We have also attached our charging and disbursements policy.

## 6 Future strategy

### 6.1 Future conduct of the administration

We will continue to manage the affairs and property of TRP in order to achieve the purpose of the administration. Specific areas which will require significant ongoing focus are noted below.

#### Plant and machinery

In October 2015, our agent, John Wilkie, advised us that he had reassessed the realisable values of the remaining items of plant and machinery and had significantly reduced his estimates compared to his initial valuation, which was prepared in May 2015. We were advised that the availability of second hand papermaking equipment has increased significantly in recent months as a result of several other paper mill closures worldwide, resulting in lower achievable values.

These closures include Innovio Papers and Meerson Paper in the Netherlands, Sappi in South Africa, Stora Enso in France, Biberist in Switzerland and Burgo in Italy. Several of these mills had plant and equipment that was comparable to TRP with some of it being more modern and of a higher specification.

Furthermore, a large quantity of finishing and conversion equipment remains available for sale. Due to the ongoing steps that are being taken to realise value from the remaining items of plant and

equipment our agents' valuations are commercially sensitive and therefore cannot be disclosed at this time.

We continue to have regular meetings with our agents to monitor progress. John Wilkie has circulated details of TRP's plant and equipment to his worldwide network of more than 4,500 contacts. To date, 24 parties have visited the site to inspect the plant and equipment, with several of the parties conducting multiple site visits. Details of the plant and machinery are also included on our agents' respective websites.

We have received offers for all of the remaining plant and machinery. We have also been approached by various scrap metal dealers and demolition contractors who have expressed an interest in acquiring all of the remaining assets, however, the level of their offers has been much lower than even the revised plant and machinery valuation as such offers are based only on the scrap value of the remaining items.

Due to the nature of TRP's plant and equipment and particularly the large size of the paper making machines and coating machines it could take a considerable length of time for these assets to be sold, dismantled and removed from site. Holding costs will continue to accrue during this time. The main ongoing holding costs are labour costs for the retained TRP staff, insuring and securing costs as well as rates and utility costs. We are continuing to constantly monitor and review ongoing holding costs and where possible take steps to reduce them. Furthermore, we will regularly reassess the benefit to unsecured creditors of continuing to hold these assets versus a clearance sale, and will provide updates on this in our future reports.

We are presently involved in advanced discussions with interested parties regarding the sale of remaining plant and equipment. However, due to the commercially sensitive nature of the negotiations, further information cannot be disclosed at this time, although further details will be included in our future reports to creditors.

### Other matters

Other outstanding matters which we will work to address over the coming weeks and months include, inter alia:

- ingathering remaining sums due from customers in relation to post appointment sales;
- completion of sale of South site;
- marketing the disposal of the North site;
- finalising the rescue of the Pension Scheme;
- adjudicating upon preferential and unsecured creditor claims; 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 is currently due to end on 26 April 2016.

However, this progress report accompanies a request to all unsecured creditors to consider a 12 month extension to 26 April 2017 to provide further time to realise the remaining assets and attend to outstanding matters.



Our request for an extension is attached to the covering letter. Please complete the voting form and return it to Calum Pickett at KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG United Kingdom.

### **6.3 Future reporting**

We will provide a further progress report within six weeks of 26 April 2016 or earlier if the administration has been completed prior to that time or if we are seeking to amend the proposals.

## Appendix 1 Statutory information

### Company information

Company name	Tullis Russell Papermakers Limited
Date of incorporation	21 May 1906
Company registration number	SC006195
Trading address	Auchmuty & Crocker, Paper Mills, Glenrothes, Fife, KY7 6PB
Previous registered office	Rothsfield, Markinch, Fife, KY7 6PB
Present registered office	20 Castle Terrace, Edinburgh, EH1 2EG
Company Directors	Niall Gille Anndrais MacDonald Frederick Alexander William Bowden Mark Thomas Steadman Geoffrey Douglas Miller Nicholas Shepherd Malcolm Mainland Sinclair Christopher Alick George Parr
Company Secretary	Geoffrey Douglas Miller

### Administration information

Administration appointment	The administration appointment granted in Court of Session, P415 of 2015
Appointor	The Directors of the Company.
Date of appointment	27 April 2015
Joint Administrators	Blair Nimmo and Tony Friar
Purpose of the administration	Achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up.
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 2016
Prescribed Part	The Prescribed Part is not applicable on this case as the floating chargeholder has no outstanding debt at the date of our appointment.
Application of EC Regulations	EC Regulations apply and these proceedings will be the Main Proceedings as defined in Article 3 of the EC Regulations.



## Appendix 2 Joint Administrators' receipts and payments account

### Tullis Russell Papermakers Limited - in Administration

Statement of Affairs (£)	From 27/04/2015 To 26/10/2015 (£)	From 27/04/2015 To 26/10/2015 (£)
POST-APPOINTMENT SALES		
6,285,000.00		
Sales	9,858,684.38	9,858,684.38
ROT settlement	117,726.05	117,726.05
Miscellaneous income	5.00	5.00
	9,976,415.43	9,976,415.43
PURCHASES		
Purchases	(58,310.30)	(58,310.30)
	(58,310.30)	(58,310.30)
OTHER DIRECT COSTS		
Direct labour	(1,420,462.67)	(1,420,462.67)
	(1,420,462.67)	(1,420,462.67)
TRADING EXPENSES		
Stock	(3,485.36)	(3,485.36)
Electricity & Steam	(252,676.04)	(252,676.04)
Rates	(346,164.53)	(346,164.53)
Water rates	(22,636.26)	(22,636.26)
Heat & light	(12,181.66)	(12,181.66)
Overseas import and sales taxes	(35,067.58)	(35,067.58)
Telephone/Fax/IT	(42,905.46)	(42,905.46)
Warehousing & distribution	(1,428,039.90)	(1,428,039.90)
Professional fees	(1,151.00)	(1,151.00)
HP/Leasing payments	(61,627.04)	(61,627.04)
Hire of equipment	(7,729.82)	(7,729.82)
Repairs and maintenance	(358,402.67)	(358,402.67)
Sundry expenses	(7,344.38)	(7,344.38)
Commission on sales	(15,731.03)	(15,731.03)
Security costs	(18,472.70)	(18,472.70)
Payroll processing costs	(5,292.70)	(5,292.70)
Stationery & postage	(2,653.82)	(2,653.82)
	(2,621,561.94)	(2,621,561.94)
<b>6,285,000.00</b>	<b>Trading surplus/(deficit)</b>	<b>5,876,080.52</b>
		<b>5,876,080.52</b>

## Tullis Russell Papermakers Limited - in Administration

Statement of affairs (£)	From 27/04/2015 To 26/10/2015 (£)	From 27/04/2015 To 26/10/2015 (£)
<b>ASSET REALISATIONS</b>		
	92,500.00	92,500.00
6,000,000.00	1,002,033.63	1,002,033.63
	3,750.00	3,750.00
200,000.00	NIL	NIL
1,458,000.00	72,500.00	72,500.00
	13,489,165.16	13,489,165.16
	2.00	2.00
600,000.00	594,832.26	594,832.26
	146,759.00	146,759.00
	<u>15,401,542.06</u>	<u>15,401,542.06</u>
<b>OTHER REALISATIONS</b>		
	12,999.37	12,999.37
4,000.00	NIL	NIL
	47,153.01	47,153.01
	5,876,080.52	5,876,080.52
	(250,000.00)	(250,000.00)
150,000.00	116,542.00	116,542.00
26,000.00	NIL	NIL
	6,176.00	6,176.00
	84,523.72	84,523.72
	<u>5,893,474.62</u>	<u>5,893,474.62</u>
<b>COST OF REALISATIONS</b>		
	(416.66)	(416.66)
	(10,142.70)	(10,142.70)
	(2,028.54)	(2,028.54)
	(32,276.28)	(32,276.28)
	(53,697.32)	(53,697.32)
	(98,028.49)	(98,028.49)
	(90,650.87)	(90,650.87)
	(365.28)	(365.28)
	(129,719.41)	(129,719.41)
	(15,439.16)	(15,439.16)
	(208,034.20)	(208,034.20)
	(51,303.49)	(51,303.49)

## Tullis Russell Papermakers Limited - in Administration

Statement of affairs (£)	From 27/04/2015 To 26/10/2015 (£)	From 27/04/2015 To 26/10/2015 (£)
	(692,102.41)	(692,102.41)
PREFERENTIAL CREDITORS		
Employees' wage arrears	(284,712.58)	(284,712.58)
Employees' holiday pay	(28,398.91)	(28,398.91)
	<u>(313,111.49)</u>	<u>(313,111.49)</u>
UNSECURED CREDITORS		
Employees Wage Arrears	(38,310.98)	(38,310.98)
Lien payments	(1,269,668.06)	(1,269,668.06)
	<u>(1,307,979.04)</u>	<u>(1,307,979.04)</u>
	<b>18,981,823.74</b>	<b>18,981,823.74</b>
REPRESENTED BY		
Floating ch. VAT rec'able		633,212.38
IB Current account		7,763,712.23
32 day notice account		11,781,013.89
Floating ch. VAT payable		(934,639.93)
PAYE/NIC		40,165.02
Pension		(60,781.16)
Other trading payroll deductions		(3,679.06)
Due to/from TRG		(237,093.23)
Due to/from TREE		(86.40)
		<u><b>18,981,823.74</b></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 Joint 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 Calum Pickett on 0131 527 6615.

### 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 (£)		
Grade	From 01 Oct 2014 £/hr	From 01 Oct 2015 £/hr
Partner	595	595
Director	535	535
Senior Manager	485	485
Manager	405	405
Senior Administrator	280	280
Administrator	205	205
Support	125	125

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 from the date of our appointment to 26 October 2015.

SIP 9 - Disbursements					
Disbursements	Category 1		Category 2		Totals (£)
	Paid (£)	Unpaid (£)	Paid (£)	Unpaid (£)	
Accommodation		7,696.28		NIL	<b>7,696.28</b>
Meals		4,298.51		NIL	<b>4,298.51</b>
Mileage		NIL		11,953.99	<b>11,953.99</b>
Sundry		74.17		NIL	<b>74.17</b>
Travel		2,608.35		NIL	<b>2,608.35</b>
<b>Total</b>		<b>14,677.31</b>		<b>11,953.99</b>	<b>26,631.30</b>

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

The Category 2 disbursements have not been approved.

## Creditors' right to challenge our remuneration and outlays

If 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 December 2015 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 Calum Pickett at KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG United Kingdom.

#### [Narrative of work carried out for the period 27 April 2015 to 26 October 2015](#)

The key areas of work undertaken are set out in the following pages.

Statutory and compliance	<ul style="list-style-type: none"> <li>■ collating initial information to enable us to carry out our statutory duties, including creditor information, details of assets and information relating to licences and permits;</li> <li>■ providing initial statutory notifications of our appointment to the Registrar of Companies, The Registrar of Inhibitions and Adjudications, creditors and other stakeholders, and advertising our appointment;</li> <li>■ issuing regular press releases and posting information on a dedicated web page;</li> <li>■ arranging bonding and complying with statutory requirements;</li> <li>■ ensuring compliance with all statutory obligations within the relevant timescales.</li> </ul>
Strategy documents, Checklist and reviews	<ul style="list-style-type: none"> <li>■ formulating, monitoring and reviewing the administration strategy, including the decision to trade and meetings with internal and external parties to agree the same;</li> <li>■ briefing of our staff on the administration strategy and matters in relation to various work-streams;</li> <li>■ regular case management and reviewing of progress, including regular team update meetings and calls;</li> <li>■ meeting with management to review and update strategy and monitor progress;</li> <li>■ reviewing and authorising junior staff correspondence and other work;</li> <li>■ dealing with queries arising during the appointment;</li> <li>■ reviewing matters affecting the outcome of the administration;</li> <li>■ allocating and managing staff/case resourcing and budgeting exercises and reviews;</li> <li>■ liaising with legal advisors regarding the various instructions, including agreeing content of engagement letters;</li> <li>■ complying with internal filing and information recording practices, including documenting strategy decisions.</li> </ul>
Cashiering	<ul style="list-style-type: none"> <li>■ setting up administration bank accounts and dealing with TRP's pre-appointment Sterling and foreign currency accounts;</li> <li>■ preparing and processing vouchers for the payment of post-appointment invoices;</li> <li>■ creating remittances and sending payments to settle post-appointment invoices;</li> <li>■ preparing payroll payments for retained staff, dealing with salary related queries and confirming payments with the employee's banks;</li> <li>■ reviewing and processing employee expense requests;</li> <li>■ reconciling post-appointment bank accounts to internal systems;</li> <li>■ ensuring compliance with appropriate risk management procedures in respect of receipts and payments.</li> </ul>
Tax	<ul style="list-style-type: none"> <li>■ gathering initial information from TRP's records in relation to the taxation position of the company;</li> <li>■ submitting relevant initial notifications to HM Revenue and Customs;</li> <li>■ reviewing TRP's pre-appointment corporation tax and VAT position;</li> <li>■ analysing and considering the tax effects of various sale options, tax planning for efficient use of tax assets and to maximise realisations;</li> <li>■ working initially on tax returns relating to the periods affected by the administration;</li> <li>■ analysing VAT related transactions;</li> <li>■ reviewing TRP's duty position to ensure compliance with duty requirements;</li> <li>■ dealing with post appointment tax compliance.</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>■ providing notification of our appointment;</li> <li>■ responding to enquiries from shareholders regarding the administration.</li> </ul>
General	<ul style="list-style-type: none"> <li>■ reviewing time costs data and producing analysis of time incurred which is compliant with Statement of Insolvency Practice 9.</li> </ul>
Trading	<ul style="list-style-type: none"> <li>■ preparing cash flow statements to monitor the cash position;</li> <li>■ attending to supplier and customer queries and correspondence;</li> <li>■ raising, approving and monitoring purchase orders and setting up control systems for trading;</li> <li>■ negotiating and making direct contact with various suppliers as necessary to provide additional information and undertakings, including agreeing terms and conditions, in order to ensure continued support;</li> <li>■ securing petty cash on site and monitoring spend;</li> <li>■ dealing with issues in relation to stock and other assets required for trading;</li> <li>■ communicating and negotiating with customers regarding ongoing supplies, including agreeing terms and conditions;</li> <li>■ monitoring stock and stock reconciliations;</li> <li>■ dealing with hauliers and warehousing providers to ensure ongoing services;</li> <li>■ ensuring ongoing provision of emergency and other essential services to site.</li> </ul>
Asset realisations	<ul style="list-style-type: none"> <li>■ collating information from TRP's records regarding the assets;</li> <li>■ liaising with finance companies in respect of assets subject to finance agreements;</li> <li>■ liaising with agents regarding the sale of assets;</li> <li>■ dealing with issues associated with the sale of stock;</li> <li>■ reviewing outstanding debtors and management of debt collection strategy;</li> <li>■ liaising with TRP credit control staff and communicating with debtors;</li> <li>■ seeking legal advice in relation to book debt collections, including Paperlinx.</li> </ul>

Property matters	<ul style="list-style-type: none"> <li>■ assess the position as regards TRP's freehold land;</li> <li>■ liaise with Pension Scheme trustees regarding the strategy for realising the freehold land over which it holds security.</li> </ul>
Sale of business	<ul style="list-style-type: none"> <li>■ planning the strategy for the sale of the business and assets, including instruction and liaison with professional advisers;</li> <li>■ seeking legal advice regarding sale of business, including regarding non-disclosure agreements;</li> <li>■ collating relevant information and drafting information memorandum in relation to the sale of TRP's business and assets and advertising the business for sale;</li> <li>■ dealing with queries from interested parties and managing the information flow to potential purchasers, including setting up a data room;</li> <li>■ managing site visits with interested parties, fielding due diligence queries and maintaining a record of interested parties;</li> <li>■ running a separate sale of business process for the electrical crepe paper operation, and negotiating the terms of its sale.</li> </ul>
Health and safety	<ul style="list-style-type: none"> <li>■ liaising with internal health and safety specialists in order to manage all health and safety issues and environmental issues, including ensuring that legal and licensing obligations are complied with;</li> <li>■ liaising with the Health and Safety Executive regarding the administration and ongoing health and safety compliance.</li> </ul>
Open cover insurance	<ul style="list-style-type: none"> <li>■ arranging ongoing insurance cover for TRP's business and assets;</li> <li>■ liaising with the post-appointment insurance brokers to provide information, assess risks and ensure appropriate cover in place;</li> <li>■ assessing and managing the level of insurance premiums.</li> </ul>
Employees	<ul style="list-style-type: none"> <li>■ dealing with employee redundancies;</li> <li>■ dealing with queries from retained and redundant employees regarding various matters relating to the administration and their employment;</li> <li>■ dealing with statutory employment related matters, including statutory notices to employees and making statutory submissions to the relevant government departments;</li> <li>■ holding employee briefing meetings to update employees on progress in the administration and our strategy;</li> <li>■ administering payroll, including associated taxation and other deductions, and preparing PAYE and NIC returns;</li> <li>■ communicating and corresponding with HM Revenue and Customs;</li> <li>■ dealing with issues arising from employee redundancies, including statutory notifications and liaising with the Redundancy Payments Office;</li> <li>■ managing claims from employees;</li> <li>■ ensuring security of assets held by employees.</li> </ul>
Pensions	<ul style="list-style-type: none"> <li>■ collating information and reviewing TRP's pension schemes;</li> <li>■ calculating employee pension contributions and review of pre-appointment unpaid contributions;</li> <li>■ ensuring compliance with our duties to issue statutory notices;</li> <li>■ liaising with the trustees of the defined benefit pension scheme, the Pensions Regulator and the Pensions Protection Fund concerning the changes caused to the pension scheme as a result of our appointment;</li> <li>■ ensuring death-in-service cover for employees remains in place;</li> <li>■ communicating with employees representatives concerning the effect of the administration on pensions and dealing with employee queries;</li> <li>■ seeking extensive legal advice regarding the proposed rescue of the Pension Scheme.</li> </ul>
Creditors and claims	<ul style="list-style-type: none"> <li>■ drafting and circulating our proposals;</li> <li>■ convening and preparing for the meeting of creditors;</li> <li>■ creating and updating the list of unsecured creditors;</li> <li>■ responding to enquiries from creditors regarding the administration and submission of their claims;</li> <li>■ reviewing completed forms submitted by creditors, recording claim amounts and maintaining claim records;</li> <li>■ dealing with suppliers with retention of title claims, including reviewing supporting documentation and arranging and carrying out stock inspection visits.</li> </ul>
Investigations/ directors	<ul style="list-style-type: none"> <li>■ reviewing company and directorship searches and advising the directors of the effect of the administration;</li> <li>■ liaising with management to produce the Statement of Affairs and filing this document with the Registrar of Companies;</li> <li>■ reviewing the questionnaires submitted by the Directors of TRP;</li> <li>■ reviewing pre-appointment transactions;</li> <li>■ Carrying out investigative work including reviewing TRP's books and records in preparation for submission of a report to the Insolvency Service.</li> </ul>



## SIP 9 – Time costs analysis

### Time costs

#### SIP 9 – Time costs analysis (27/04/2015 to 26/10/2015)

	Hours				Total	Time Cost (£)	Average Hourly Rate (£)
	Partner / Director	Manager	Administrator	Support			
<b>Administration &amp; planning</b>							
<b>Cashiering</b>							
Fund management		1.30			<b>1.30</b>	630.50	485.00
General (Cashiering)		1.10	113.60		<b>114.70</b>	32,019.00	279.15
Reconciliations (& IPS accounting reviews)		3.70	14.40		<b>18.10</b>	5,166.50	285.44
<b>General</b>							
Books and records		18.40	28.90		<b>47.30</b>	14,872.00	314.42
Fees and WIP	2.30		0.50		<b>2.80</b>	1,370.50	489.46
<b>Statutory and compliance</b>							
Appointment and related formalities	44.30	36.90	50.80	31.30	<b>163.30</b>	57,300.50	350.89
Checklist & reviews	2.70	4.45	9.50	0.50	<b>17.15</b>	6,487.25	378.27
Pre-administration checks			1.00		<b>1.00</b>	205.00	205.00
Statutory advertising			1.20		<b>1.20</b>	336.00	280.00
Statutory receipts and payments accounts			7.00		<b>7.00</b>	1,960.00	280.00
Strategy documents	64.10	47.10	3.00		<b>114.20</b>	59,717.00	522.92
<b>Tax</b>							
Initial reviews - CT and VAT		3.00	15.70		<b>18.70</b>	5,611.00	300.05
Post appointment corporation tax		5.00	6.00		<b>11.00</b>	3,480.00	316.36
Post appointment overseas tax		7.35	10.80		<b>18.15</b>	6,428.25	354.17
Post appointment VAT	5.30	197.10	87.90	4.00	<b>294.30</b>	108,911.50	370.07
<b>Creditors</b>							
<b>Committees</b>							
Formation			0.60		<b>0.60</b>	123.00	205.00
Meetings	5.50	4.30			<b>9.80</b>	5,358.00	546.73
<b>Creditors and claims</b>							
Agreement of claims			0.40		<b>0.40</b>	82.00	205.00
Agreement of preferential claims		17.90			<b>17.90</b>	8,681.50	485.00
Agreement of unsecured claims		8.70	51.20		<b>59.90</b>	14,715.50	245.67
General correspondence	30.20	43.25	214.10	14.80	<b>302.35</b>	91,699.75	303.29

**SIP 9 – Time costs analysis (27/04/2015 to 26/10/2015)**

	Hours					Time Cost (£)	Average Hourly Rate (£)
	Partner / Director	Manager	Administrator	Support	Total		
Legal claims		2.95	3.60		<b>6.55</b>	2,363.75	360.88
Notification of appointment			13.00		<b>13.00</b>	3,640.00	280.00
Pre-appointment overseas tax	3.40	10.45	1.60		<b>15.45</b>	7,379.25	477.62
Pre-appointment VAT / PAYE / CT		0.40	2.60		<b>3.00</b>	922.00	307.33
ROT Claims	1.30	186.20	240.80		<b>428.30</b>	147,460.00	344.29
Secured creditors	1.60				<b>1.60</b>	856.00	535.00
Statutory reports	64.50	24.75	37.20	3.40	<b>129.85</b>	57,044.75	439.31
<b>Employees</b>							
Agreeing employee claims	2.70	6.30	3.60		<b>12.60</b>	5,670.00	450.00
Correspondence	11.25	332.00	1,120.00		<b>1,463.25</b>	471,298.75	322.09
DTI redundancy payments service			9.00		<b>9.00</b>	2,520.00	280.00
Pension funds	123.75	10.85	13.55		<b>148.15</b>	76,222.50	514.50
Pensions reviews	2.10	4.60	20.60		<b>27.30</b>	8,865.50	324.74
<b>Investigation</b>							
<b>Directors</b>							
Correspondence with directors	10.90	9.95			<b>20.85</b>	10,549.25	505.96
D form drafting and submission		4.40	6.90		<b>11.30</b>	4,066.00	359.82
Directors' questionnaire / checklist	1.20				<b>1.20</b>	714.00	595.00
Statement of affairs	2.50	3.30	3.40		<b>9.20</b>	4,040.00	439.13
<b>Realisation of assets</b>							
<b>Asset Realisation</b>							
Cash and investments		1.50	46.20		<b>47.70</b>	13,663.50	286.45
Debtors	49.40	167.05	159.50		<b>375.95</b>	150,242.25	399.63
Freehold property	21.00	155.55	5.90		<b>182.45</b>	83,980.75	460.29
Goodwill	26.00	44.90			<b>70.90</b>	36,718.50	517.89
Health & safety	1.10	90.70	30.55		<b>122.35</b>	46,118.50	376.94
Office equipment, fixtures & fittings		1.90	2.60		<b>4.50</b>	1,641.50	364.78
Open cover insurance	0.60	3.90	20.10		<b>24.60</b>	7,732.50	314.33
Other assets	2.10	8.90	6.10		<b>17.10</b>	7,148.00	418.01
Plant and machinery	100.40	146.60	18.90		<b>265.90</b>	128,329.00	482.62
Sale of business	124.00	171.00	189.90		<b>484.90</b>	198,608.50	409.59

**SIP 9 – Time costs analysis (27/04/2015 to 26/10/2015)**

	Hours				Total	Time Cost (£)	Average Hourly Rate (£)
	Partner / Director	Manager	Administrator	Support			
Stock and WIP	61.00	193.80	300.30		<b>555.10</b>	200,662.50	361.49
Vehicles		7.70	2.40		<b>10.10</b>	3,830.50	379.26
<b>Trading</b>							
Trading							
Cash & profit projections & strategy	3.40	8.85			<b>12.25</b>	6,297.25	514.06
Purchases and trading costs	71.60	224.30	431.45		<b>727.35</b>	252,397.25	347.01
Sales		2.90	33.50		<b>36.40</b>	8,236.00	226.26
<b>Total in period</b>	<b>840.20</b>	<b>2,225.25</b>	<b>3,339.85</b>	<b>54.00</b>	<b>6,459.30</b>	<b>2,374,373.00</b>	<b>367.59</b>

Brought forward time (appointment date to SIP 9 period start date)	0.00	0.00
SIP 9 period time (SIP 9 period start date to SIP 9 period end date)	6,459.30	2,374,373.00
Carry forward time (appointment date to SIP 9 period end date)	6,459.30	2,374,373.00

## Appendix 4      Glossary

<b>BoS</b>	Bank of Scotland, part of Lloyds Banking Group plc
<b>CMS</b>	CMS Cameron McKenna
<b>GMG</b>	GMG Asset Management UK Limited
<b>Group, the</b>	Tullis Russell Group Limited
<b>GVA</b>	GVA Grimely Limited, property agents
<b>John Wilkie</b>	John Wilkie Specialist Papermill Services Limited
<b>Joint Administrators/we/our/us</b>	Blair Nimmo and Tony Friar
<b>KPMG</b>	KPMG LLP
<b>LBCF</b>	Lloyds Bank Commercial Finance
<b>Pension Scheme, the</b>	The Tullis Russell pension scheme (in which TRP is the principal employer)
<b>RPO, the</b>	The Redundancy Payments Office
<b>TRP / Company, the</b>	Tullis Russell Papermakers Limited - in Administration
<b>WIP</b>	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 Tony Friar and Blair Nimmo, 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 or any other company in the Group.

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.

Gerard Anthony Friar and Blair Carnegie Nimmo 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.

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