



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

Tullis Russell Papermakers
Limited - in Administration

5 December 2016

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.

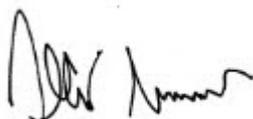
Please also note that an important legal notice about this progress report is attached (Appendix 5).

Contents

1	Executive summary	2
2	Progress to date	3
3	Dividend prospects and dividends paid	6
4	Other matters	7
5	Joint Administrators' remuneration, outlays and disbursements	9
6	Future strategy	10
Appendix 1	Statutory information	11
Appendix 2	Joint Administrators' receipts and payments account	12
Appendix 3	Joint Administrators' charging and disbursements policy	15
Appendix 4	Glossary	21
Appendix 5	Notice: About this report	22

1 Executive summary

- This progress report covers the period from 27 April 2016 to 26 October 2016.
- As previously reported, a sale was agreed for the remainder of TRP's plant and machinery in January 2016. £115,000 has been received in the period in relation to the agreed sale, with a further £40,000 remaining due in relation to the agreement. (Section 2.2 – Asset realisations).
- Further realisations have been made in the period including the recovery of a supplier deposit, sale of post appointment stock, carbon credits and sums held in a pre-appointment bank account (Section 2.2 – Asset realisations).
- Site repairs and maintenance, and employee costs associated with the safe removal of P&M 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 refreshed sales strategy is currently being agreed with the Pension Scheme trustees. TRP had no other outstanding secured debt (Section 3.1 – Secured creditors).
- The remaining preferential claims have been settled during the period. This represents a dividend of 100p in the £ (Section 3.2 – Preferential Claims).
- On 24 June 2016 a dividend of 20.1p in the £ was declared to unsecured creditors, which was paid in the period. It is anticipated that a further dividend may become available to unsecured creditors, however the timing of this is currently uncertain and will be dependent on the timings and quantum of future realisation (Section 3.3 – Unsecured creditors).
- A Creditors' Committee was formed at a meeting of creditors on 3 May 2016. At a meeting on 10 October 2016, the Creditors' Committee approved various resolutions, including that the Joint Administrators' remuneration may be drawn for the period 27 April 2015 to 26 April 2016 and from 27 April 2016 to 26 October 2016 (Section 4.1 – Creditors' committee).
- 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).
- Due to the matters outlined in the report, an extension of the administration may be required (Section 6.2 – Extension of the administration).
- Please note: you should read this progress report in conjunction with our previous progress reports and 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 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.

The discrete areas referred to above (to the extent that they relate to the period in question) 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 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. To date we have received £2.975 million of this consideration, with a final payment £40,000 currently due. The additional realisations of £115,000 received during the period relate to the agreed contribution that Nexus make towards site infrastructure costs whilst removal of the plant & machinery takes place.

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 backstop for completion of this process was extended by a month, to 30 November 2016 and Nexus have now finished their removal work.

WIP and finished goods

At appointment, TRP had approximately 11,500 tonnes of finished goods stock and 3,000 tonnes of WIP, which was subsequently converted to finished goods.

The Receipts and Payments account (Appendix 2) shows a receipt of £9,167 during the period. This is expected to be the final receipt in relation to post-appointment sales.

DSV deposit

TRP provided its transport and logistics company, with a security deposit of £250,000 at the beginning of the Administration. This deposit related to potential costs of disposing of stock which had been impounded in an Argentinian port due to a customs clearance issue. The issue has now been resolved and the funds have been returned to TRP.

Carbon credits

TRP had an excess allocation of carbon credits, due to the cessation of paper making activities and subsequent reduction in energy usage. After a period of investigation, it was established that these credits could be sold to third parties. With the assistance of Amsterdam Capital Trading, the credits were sold for a consideration of £134,656 (prior to the deduction of commission).

Cash at bank

£82,907 has been received in the period, which is the closing balance of the Royal Bank of Scotland plc pre appointment bank account.

Bank interest

£21,648 bank interest has been received in the period bringing the total interest received during the administration to £50,220.

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:

- Onsite security;
- Site clearance and hazardous material removal;
- Environmental considerations;

- Preparing the Company books and records for collection; and
- The decommissioning of plant and machinery.

As the administration process has progressed and the level of assets to realise has reduced, further redundancies have been made. We have continued to assist redundant staff with submitting their claims to the RPO. As at 26 October 2016, there were seven remaining employees.

The costs associated with paying employees are shown under the 'Direct labour' caption in Appendix 2 and total £206,393 for the period.

Repairs, maintenance, HSE and site clearance

Costs of £140,152 were incurred in the period, primarily for the disposal of chemicals and safety inspections/monitoring relating to onsite asbestos.

Rates

Non-domestic rates for the period 1 April 2016 to 31 October 2016 in relation to the site have been paid in the period, at a cost of £483,694. This includes a deduction for available empty property reliefs.

Agents' fees

Agents' fees totalling £35,986 have been paid in the period, which relate to the following:

- £20,198 of commission on the sale of the Carbon Credits;
- £10,000 in relation to commission due on non-domestic rates savings secured;
- £1,328 relating to debt recovery fees; and
- £4,460 for support provided to surrender the site Pollution Prevention and Control permit.

Solicitors' fees

Legal fees of £51,452 have been incurred during the period, comprising:

- £47,514 relating to general legal matters in the administration, such as: assistance with creditor contractual claims; advice in relation to the recovery of certain debtor balances; and seeking court permission for the extension of the administration and to pay the dividend.
- £2,640 relating to specific advice on the Pension Scheme.
- £1,298 relating to specific advice in relation to the Canadian Revenue (discussed in previous report).

Other notable costs

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

- Utility costs, primarily being £58,633 for power and steam costs.
- £86,525 in relation to site security; and

- £46,922 in relation to commission due to Tullis Russell Inc. on post-appointment sales in Canada.

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. 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. As 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, there will be no surplus funds available to TRP's other creditors.

3.2 Preferential creditors

Preferential creditors' claims of £0.6 million have been paid, which comprise employees' claims for arrears of wages and accrued holiday pay. This represents a dividend of 100p in the £.

Employees may have an unsecured claim in relation to redundancy payments and wage arrears. Further information on unsecured claims is discussed in the next section.

3.3 Unsecured creditors

Interim dividend

On 24 June 2016, the Joint Administrators facilitated an interim dividend to unsecured creditors of 20.1p per £1 of agreed claim.

To allow us to progress the administration, any unclaimed dividends will be consigned to the Accountant of Court in due course.

Adjudication

As part of the interim dividend process, the adjudication position was finalised on 24 June 2016. The table below sets out the current unsecured claims position.

Unsecured creditor claims as at 26 October 2016				
	Number	Claim (£000)	Agreed (£000)	Rejected (£000)
Agreed in full (including nil claims)	190	34,258	34,258	-
Partly agreed	21	12,719	7,344	5,375
Rejected in full	3	<1	<1	<1
Held	7	2,447	2,447	-
Outstanding proofs	144	-	-	-
	365	49,424	44,049	5,375

We will write to any unsecured creditors who had a held claim for dividend purposes, or submitted a claim after the interim dividend was facilitated, to advise the level at which their claim has been agreed prior to the next distribution.

Further dividend prospects

The final quantum and timing of the dividend is wholly dependent upon final asset realisations and the cost of the administration process.

4 Other matters

4.1 Creditors' Committee

A Creditors' Committee was elected at the meeting of creditors held on 3 May 2016.

The Creditors' Committee represents the interests of the creditors as a whole, rather than the interests of certain parties or individuals.

Its statutory function is to help us to discharge our responsibilities as Joint Administrators.

On 10 October 2016, the Creditors' Committee approved the following resolutions.

- the Joint Administrators' remuneration be drawn on the basis of time properly given by us and the various grades of our staff in attending to matters arising in the Administration at their normal hourly rates of charging subject to the agreement of appropriate caps with the Creditors' Committee. Our time will include work undertaken in respect of, but not limited to, tax, VAT, employee and pensions and Health and Safety advice from KPMG LLP in-house specialists;
- the Joint Administrators' account of intromissions for the period 27 April 2015 to 26 April 2016 is approved;
- the Joint Administrators may draw remuneration equal to time costs of £3,271,666.50 (plus VAT), incurred during the period from 27 April 2015 to 26 April 2016;
- the Joint Administrators may draw further remuneration of £28,333.50 (plus VAT) in relation to the period 27 April 2016 to 26 October 2016 taking the Joint Administrators' total remuneration up to an agreed cap of £3,300,000 (plus VAT);
- disbursements for services provided by KPMG LLP (defined as Category 2 disbursements in Statement of Insolvency Practice 9) will be charged in accordance with KPMG LLP's policy as set out in our Proposals.

Members of the Creditors' Committee are not remunerated for their time. Other than receiving travel expenses, they will receive no payment from TRP.

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.

North Site

GVA were retained as property agents to identify the options for the site. In February 2016, we appointed JMP Consultants Limited to prepare an access appraisal and estimate the likely costs for creating a new access road into the site – a key aspect of understanding the value and potential future use of the site. A refreshed sales and marketing strategy for the North Site is currently being agreed with the Pension Scheme Trustees.

In order to ensure commercial negotiations are not prejudiced, we are unable to provide an indication of the North site's potential value at this stage.

South Site

As previously reported, a sale of this site had been agreed with a long stop date set for 30 June 2016. Unfortunately, the suspensive conditions attached to the missive were not met and the purchaser was unwilling to proceed with an offer at the same level. We are currently reviewing the strategy for the sale of the site with the Pension Scheme Trustees.

Debtors

At the date of our appointment, TRP's gross book debts (excluding intercompany debts which were eliminated by valid contra claims and rebates rightfully dues to customers) totalled £16.9 million, spread across 300 individual customers.

As discussed previously, debts of approximately £2.0 million were written off due to valid claims to discount/contra, exchange rate differences and genuine disputes.

Approximately £1.6 million of debtor balances remain outstanding. These balances include international customers (£0.6 million) and £1.0 million owed by the Paperlinx Group which is discussed in the next section. The collectability of the overseas balances is currently uncertain. We have not recovered any funds from the international customers during this period, however, we have commenced legal action against these customers, where it is considered cost effective to do so. It is unlikely that these debts will be recovered quickly, if at all, due to the complexities associated with the legal proceedings in each country. Depending on progress made in the next two months, we intend to consult the Committee before incurring any additional costs due to the uncertain outcome.

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 £1.0 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 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 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 are now corresponding with the legal representatives of

Atradius. Pre litigation action protocols have now commenced and the basis of TRP's claim against Atradius has been formally intimated.

The quantum and timing of future recoveries will be dependent upon successful resolution of the 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. We are currently liaising with SEPA regarding the surrender of TRP's pollution prevention and control licences, which relate to TRP's historical operations. This process has required the input of KPMG's internal health & safety specialists and external consultants.

5 Joint Administrators' remuneration, outlays and disbursements

Time costs

From 27 April 2016 to 26 October 2016, we have incurred time costs of £550,355.25. These represent, 1,612.65 hours at an average rate of £341.27 per hour.

A detailed analysis of the time spent is provided at Appendix 3.

Remuneration and outlays

During the period we have not drawn any remuneration or outlays, however a notification was sent to creditors on 25 October 2016 informing them of the Creditor Committees' determination. Remuneration has been drawn subsequent to the end of the period covered by this report.

Disbursements

During the period, we have incurred disbursements of £574.51. 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 27 April 2016 to 26 October 2016. 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, 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:

- marketing the North site for sale;
- marketing the South site for sale;
- assisting with the removal of Plant & Machinery and ensuring that remaining funds are received under the agreement with Nexus;
- ingathering remaining sums due from pre appointment debtors;
- pursue the realisation of TRP's other remaining assets;
- adjudicating upon unsecured creditor claims and subsequent payment of dividends; 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 Court granted a 12 month extension to the period of the administration.

The matters outlined in section 6.1 are still to be finalised in the administration. Whilst we will finalise these as soon as possible, it is considered unlikely to be completed by 26 April 2017 and we may require an extension to the period of the administration. If you object to such an extension please write to us at KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG United Kingdom by no later than 19 December 2016. If we do not hear from creditors by this date, we will assume that there are no objections to the extension and will make an application if and when necessary.

6.3 Future reporting

We will provide a further progress report within six weeks of 26 April 2017 or earlier if the administration has been completed prior to that time.

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	Tony Friar and Blair Nimmo
Prescribed Part	The Prescribed Part is not applicable as the floating chargeholder has 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 2017

Appendix 2 Joint Administrators' receipts and payments account

Tullis Russell Papermakers Limited - in Administration

Trading accounts

Statement of Affairs (£)	From 27/04/2016 To 26/10/2016 (£)	From 27/04/2015 To 26/10/2016 (£)
	POST-APPOINTMENT SALES	
	Sales	9,166.66
	ROT settlement	-
	Miscellaneous income	-
		11,952,197.90
		165,393.91
		5.00
		<u>12,117,596.81</u>
	PURCHASES	
	Purchases	-
		(59,194.06)
		<u>(59,194.06)</u>
	OTHER DIRECT COSTS	
	Direct labour	(206,392.93)
		<u>(2,117,490.03)</u>
		(2,117,490.03)
	TRADING EXPENSES	
6,285,000.00	Stock	-
	Electricity & Steam	(58,632.53)
	Rates	-
	Water rates	(18,188.84)
	Heat & light	(540.49)
	Overseas import and sales taxes	-
	Telephone/Fax/IT	(12,734.12)
	Warehousing & distribution	-
	Professional fees	-
	HP/Leasing payments	(1,187.07)
	Hire of equipment	(593.53)
	Repairs and maintenance	(140,151.75)
	Sundry expenses	-
	Sales rebate	-
	Commission on sales	(46,921.55)
	Security costs	(86,525.20)
	Payroll processing costs	(1,124.40)
	Stationery & postage	-
		(366,599.48)
		<u>(3,864,739.76)</u>
<u>6,285,000.00</u>	Trading surplus/(deficit)	(563,825.75)
		6,076,172.96

Tullis Russell Papermakers Limited - in Administration
Trading accounts

Statement of Affairs (£)	From 27/04/2016 To 26/10/2016 (£)	From 27/04/2015 To 26/10/2016 (£)
FIXED CHARGE COSTS		
Agents'/Valuers' fees - secured land	-	(5,000.00)
	-	(5,000.00)
ASSET REALISATIONS		
Brands and intangibles	-	92,500.00
6,000.00 Plant & machinery	115,000.00	4,363,842.07
Furniture & equipment	-	4,250.00
200,000.00 Raw Materials & Other Stocks	-	-
1,458,000.00 Stock - work in progress	-	85,616.98
Book debts	324.43	13,338,519.63
Goodwill	-	2.00
654,000.00 Cash at bank	82,906.71	665,979.79
Insurance Settlement	8,144.50	154,903.50
	206,375.64	18,705,613.97
OTHER REALISATIONS		
Bank interest, gross	21,647.58	50,219.61
4,000.00 Petty Cash	-	-
Sundry refunds	-	47,153.01
6,285,000.00 Trading surplus/(deficit)	(563,825.75)	6,076,172.96
DSV deposit	250,000.00	-
150,000.00 Carbon Credits	134,656.08	251,198.08
26,000.00 Intercompany Loans	-	-
Other income	7,759.38	40,154.23
HMRC refund	-	84,523.72
	(149,762.70)	6,549,421.62
COST OF REALISATIONS		
Creditors Meeting	-	(416.66)
Interest	(1,188.18)	(1,188.18)
Protective award	-	(3,500.00)
Canadian bond	-	(1,768.37)
Purchase of Canadian Dollars	-	(53,983.66)
Legal fees - property	-	(10,142.70)
Irrecoverable VAT	(565.00)	(2,593.54)
German VAT	-	(32,866.84)
Agents'/Valuers' fees	(35,986.13)	(270,513.39)
Advisors' fees	(14,399.84)	(40,291.24)
Legal fees	(48,811.85)	(212,459.40)
Legal fees - pensions	(2,639.92)	(140,644.39)
Storage costs	-	(758.88)
Statutory advertising	-	(432.28)
Rates	(483,694.46)	(483,694.46)
Other property expenses	(2,825.00)	(2,825.00)
Insurance of assets	-	(129,719.41)
Bank charges	(1,015.49)	(191,327.71)
Canadian GST/HST	-	(280,745.09)

	<u>(591,125.88)</u>	<u>(1,859,871.20)</u>
PREFERENTIAL CREDITORS		
PAYE income tax etc	(47,942.70)	(47,942.70)
Nat. ins. contributions	(11,538.29)	(11,538.29)
Employees' wage arrears	-	(284,712.58)
Employees' holiday pay	-	(28,398.91)
	<u>(59,480.99)</u>	<u>(372,592.48)</u>
UNSECURED CREDITORS		
Trade & expense	(9,892,593.89)	(9,892,593.89)
Employees Wage Arrears	-	(38,310.98)
Lien payments	-	(1,269,668.06)
Corp tax etc/nonpref PAYE	(53,174.12)	(53,174.12)
Non-preferential NIC	(5,938.54)	(5,938.54)
VAT differences	(73,989.48)	-
	<u>(10,025,696.03)</u>	<u>(11,259,685.59)</u>
<u>14,777,000.00</u>	<u>(10,619,689.96)</u>	<u>11,757,886.32</u>
REPRESENTED BY		
Cash at Bank		11,879,849.94
Trade creditors		(65,787.47)
VAT Payable		(55,122.27)
Other		(1,053.88)
		<u>11,757,886.32</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 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 (£) for: TRP

Grade	From 01 Nov 2016 £/hr
Partner	625
Director	560
Senior Manager	510
Manager	425
Senior Administrator	295
Administrator	215
Support	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 April 2016 to 26 October 2016.

SIP 9 - Disbursements					
Disbursements	Category 1		Category 2		Totals (£)
	Paid (£)	Unpaid (£)	Paid (£)	Unpaid (£)	
Accommodation	84.68		NIL		84.68
External printing	8.72		NIL		8.72
Meals	14.77		NIL		14.77
Mileage	NIL		117.75		117.75
Postage	149.44		NIL		149.44
Sundry	1.51		NIL		1.51
Travel	197.64		NIL		197.64
Total	456.76		117.75		574.51

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

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 2016 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 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 2016 to 26 October 2016

The key areas of work 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;■ dealing with the formation of the Creditor's Committee, arranging and chairing meetings of the Creditors' Committee and providing regular reports.
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;■ reviewing TRP's duty position to ensure compliance with duty requirements;■ dealing with post appointment tax compliance analysing VAT related transactions;■ reviewing the Company's duty position to ensure compliance with duty requirements;■ 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

	<ul style="list-style-type: none"> costs incurred; ■ 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; ■ securing petty cash on site and monitoring spend; ■ dealing with issues in relation to stock and other assets required for trading; ■ ensuring ongoing provision of emergency and other essential services to site.
Asset realisations	<ul style="list-style-type: none"> ■ collating information from TRP's records regarding the assets; ■ liaising with finance companies in respect of assets subject to finance agreements; ■ 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"> ■ assess the position as regards TRP's freehold land; ■ 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 issues and environmental issues, including ensuring that legal and licensing obligations are complied 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; ■ 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; ■ ensuring death-in-service cover for employees remains in place; ■ communicating with employees 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; ■ dealing with suppliers with retention of title claims, including reviewing supporting documentation and arranging and carrying out stock inspection visits; ■ agreeing preferential and unsecured claims; ■ arranging distributions to the preferential and unsecured creditors; ■ drafting our progress report.

Time costs

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

	Hours				Time Cost (£)	Average Hourly Rate (£)	
	Partner / Director	Manager	Administrator	Support			Total
Administration & planning							
Cashiering							
Fund management		1.40	0.40		1.80	791.00	439.44
General (Cashiering)			65.40		65.40	15,844.50	242.27
Reconciliations (& IPS accounting reviews)		15.10	8.00		23.10	9,563.50	414.00
General							
Books and records			16.50		16.50	3,697.50	224.09
Fees and WIP	3.20	4.70	2.60		10.50	4,719.50	449.48
Statutory and compliance							
Appointment and related formalities	5.00				5.00	2,975.00	595.00
Checklist & reviews		2.90	8.50		11.40	3,657.00	320.79
Statutory receipts and payments accounts		0.40			0.40	194.00	485.00
Strategy documents	8.60	4.20	3.30		16.10	7,562.00	469.69
Tax							
Post appointment corporation tax		8.00	18.65		26.65	7,363.75	276.31
Post appointment overseas tax			1.50		1.50	420.00	280.00
Post appointment PAYE		0.10	1.50		1.60	423.50	264.69
Post appointment VAT		22.70	30.80		53.50	18,881.50	352.93
Creditors							
Committees							
Formation		3.00	1.90		4.90	1,957.00	399.39
Meetings	10.50	4.30	12.90		27.70	10,715.00	386.82
Reports	10.80	28.40	37.70		76.90	30,085.50	391.23
Creditors and claims							
Agreement of claims		0.30	1.30		1.60	509.50	318.44
Agreement of preferential claims		8.40	11.50		19.90	6,911.50	347.31
Agreement of unsecured claims	2.10	101.35	213.00		316.45	103,436.75	326.87
General correspondence	1.70	1.80	75.40		78.90	20,890.50	264.77

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

	Hours				Total	Time Cost (£)	Average Hourly Rate (£)
	Partner / Director	Manager	Administrator	Support			
Legal claims		14.80	11.30		26.10	10,282.00	393.95
Payment of dividends	0.90	59.50	20.20		80.60	33,836.25	419.80
ROT Claims			3.20		3.20	896.00	280.00
Statutory reports	35.60	7.70	26.70		70.00	30,822.00	440.31
Employees							
Agreeing employee claims		3.65	6.80		10.45	3,674.25	351.60
Correspondence		16.60	250.40		267.00	72,890.50	273.00
DTI redundancy payments service			1.40		1.40	392.00	280.00
Pension funds	2.40		2.20		4.60	1,900.00	413.04
Pensions reviews		0.75	15.15		15.90	4,545.75	285.90
Realisation of assets							
Asset Realisation							
Cash and investments			0.60		0.60	168.00	280.00
Debtors	4.40	5.15	33.70		43.25	14,250.25	329.49
Freehold property	18.30	31.85	7.70		57.85	25,798.75	445.96
Health & safety		17.05	43.25		60.30	19,263.50	319.46
Other property	2.10	33.80			35.90	17,484.50	487.03
Open cover insurance		0.40	2.00		2.40	754.00	314.17
Other assets		1.60			1.60	776.00	485.00
Plant and machinery	5.70	50.30	4.80		60.80	28,789	473.50
Vehicles			1.80		1.80	504.00	280.00
Trading							
Cash & profit projections & strategy		2.60			2.60	1,261.00	485.00
Purchases and trading costs	5.50	7.10	93.90		106.50	31,469.00	295.48
Total in period	116.80	459.90	1,035.95	0.00	1,612.65	550,355.25	341.27

Brought forward time (appointment date to SIP 9 period start date)	8,899.10	3,270,769.25
SIP 9 period time (SIP 9 period start date to SIP 9 period end date)	1,612.65	550,355.25
Carry forward time (appointment date to SIP 9 period end date)	10,511.75	3,821,124.50

Appendix 4 Glossary

CMS	CMS Cameron McKenna
Group, the	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 is the principal employer)
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 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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