

INVERESK PLC

("Inveresk" or "the Company")

Preliminary Results for 12 months to 31 December 2003

Inveresk is pleased to announce its first annual results following the completion of its restructuring and refinancing in April 2003. The Company has been restored to profitability recording pre-tax profits of £3.032M for the year to 31 December 2003 compared to pre-tax losses of £34.306M for the 13 months to 31 December 2002.

Highlights

- Refinanced Balance Sheet advancing net shareholders' funds to £17.3M from £3.6M at 31 December 2002.
- Successful issue of equity in April 2003 raising £8.2 million via a placing which was underwritten by 17 institutional and other investors.
- Return to profitability without charge to corporation tax due to carry forward loss relief.
- High level of cash generation allowing equalisation of standstill arrangements of in excess of £12.5M with major suppliers, all of whom have been restored to normal trading terms.
- Decentralised Head Office costs and eliminated excesses.
- Improved productivity and efficiency levels through planned maintenance and limited capital expenditure.
- Proposed dividend payment of 0.25p reflecting the Board's optimism in the Company's future prospects.
- Potential for the Company to progress to debt free status arising out of future profit generation and the realisation of surplus assets through land development following the agreed lease surrender in December 2003 with Klippan International plc at the Caldwell's Mill in Fife.
- Restoration of Inveresk's credibility in the eyes of customers, suppliers and the paper industry as a whole.

Alan Walker, Chief Executive commented *"These results confirm the restoration to underlying profitability. Within our speciality market niches, significant opportunities exist for profitable growth. Despite difficult trading conditions prevailing in most European territories, we believe that through technical innovation, we can offer our customers product differentiation on a highly competitive basis."*

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Jan Bernander	Chairman	(00 46) 708 556 400

CHAIRMAN'S STATEMENT

Results

When I wrote to shareholders in August 2003 to report on the interim results for the 6 months to 30 June 2003 the Company had experienced buoyant trading in the early part of the year. The industry subsequently suffered a downturn in demand during the second half of the year as a consequence of de-stocking in most European countries. Your Company was not immune to the general decline in demand but remained profitable at the operating level throughout the period due in no small measure to the actions taken by the new Board of Directors as part of the restructuring put in place immediately after my appointment as chairman and Mr. Alan Walker's appointment as CEO on 29 October 2002.

Turnover for 2003 for continuing activities was £39.74M as compared to £44.68M for the 13 month period to 31 December 2002. Profit from continuing activities and before exceptional items was £2.03 million compared to £1.67 million, whilst profits before tax amounted to £3.032M (2002 loss of £34,306M) giving earnings per share of 2.7p (2002 loss of 56.3p). This represents a significant turnaround in your Company's performance. The income statement has benefited from realised gains arising from the sale of assets previously written down as part of the rationalisation programme and from the release of provisions no longer required due to stringent control over fundamental reorganisation costs. This past year was always viewed as a year during which a financial transformation would take place thereby creating a springboard for future growth. The rehabilitation of the Company has been successfully completed with shareholders' funds advancing to £17.3M from £3.6M at the start of the year. All aspects of the Balance Sheet have improved with particular emphasis on the Company's ability to generate cash and increase the effectiveness of its working capital ratios.

Dividend

As an indication of the Directors' confidence in the future the Board has decided to recommend the payment of a final dividend of 0.25p per share. This is the first dividend to be declared by your Company since 1999 and it is pleasing that the speed of recovery has been so rapid despite the difficult trading environment that continues to pervade the paper industry as a whole. The dividend will cost £360,000, is covered 8.4 times by pre-tax profits and if approved by shareholders at the forthcoming Annual General Meeting will be paid on 2 July 2004 to shareholders on the register on 4 June.

Papermaking

The Company continues to operate from its two speciality mills at Carrongrove outside Stirling in Scotland and St Cuthberts in Wells, Somerset. Despite weakening demand throughout the industry in the second half of the year, Carrongrove recorded satisfactory operating profits through the production and sale of its single and double sided SBS coated boards. The autumn re-launch of the "Gemini" brand was very successful and the management team continues to focus on new markets, product innovation and continuous improvements to operating efficiencies.

After a very promising start to the year the overall performance at St Cuthberts was disappointing and failed to live up to the Board's expectations. This was mainly due to lack of volume in the furniture industry where demand for the highly specialised pre-impregnated resin based decorative papers was subdued. Considerable technical expertise exists within the management team at St Cuthberts and as a result of new products developed in-house there is scope for optimism that volumes will recover in the current year to a more appropriate level of capacity utilisation.

Papers used in the artist sector and those for laser inkjet photography enjoyed a solid year with positive development of the Company's leading brands. Plans exist to further develop this increasingly lucrative quality end of the market.

Asset Realisation Programme

Shareholders will recall that the sale of the Caldwells' graphic business on 29th October 2002 to Klippan International plc, a subsidiary of Klippan AB of Sweden heralded the start of the recovery of your Company's trading future. Through this sale, Inveresk eliminated significant losses arising out of its graphic paper activities. This disposal allowed your new Board of Directors to concentrate on those niche areas where Inveresk has a serious market share both in Europe and, in the case of pre-impregnated resin based papers, the global market. At the same time the elimination of losses greatly assisted the new management's ability to restructure and refinance the Company in order to create shareholder value and build a platform for future growth.

Klippan AB announced on 29th August 2003 its intention to run down the activities of the Caldwells Mill which subsequently closed on 28th November 2003. Following positive discussions with Scottish Enterprise Fife and the Planning Department of Fife Council, Inveresk agreed to accept a surrender by Klippan of the underlying lease of the Caldwells Mill which included all plant, equipment, buildings and land which in three locations amounts to some 25 acres in all. In effect from 1st January 2004 all assets reverted to Inveresk and the lease came to an end.

The decommissioning of the Caldwells Mill has been largely completed by Klippan International plc and your management team is now actively engaged in the sale of all plant and equipment to potential buyers from all corners of the world. Thereafter and in cooperation with Scottish Enterprise Fife and Fife Council Planning Department a project to develop the entire area will get underway which is likely to include possible alternative uses of the land in question. This project will of course take time and it is hoped that at its conclusion it will be seen as a major boost to the Inverkeithing community, notwithstanding the sad loss of 150 jobs in the area. It is your Board's stated objective to leave behind a legacy in the 21st Century which will be of benefit to the local community rather than to witness yet further industrial decay on the shores of the River Forth. Our project will be of massive benefit to Inverkeithing and to those living and working in the area and in conjunction with Scottish Enterprise Fife and Fife Council we hope to give rise to the regeneration of Inverkeithing and its surrounding area.

In the final analysis we intend to "work" these assets to the benefit of all parties. In the case of the Caldwells assets the low yield of £100,000 from the lease, rising incrementally by the same amount over 5 years, has been swapped for the considerably greater potential of realising these assets for cash consideration over time with the clear objective of paying down bank debt as soon as practicable thereby potentially rendering the Company debt free in the short to medium term.

Central costs and litigation

Central management, of which there are now few, have enjoyed a particularly successful year in reducing costs and bringing the commercial litigation, referred to at the time of the Company's Placing and Open Offer in April 2003, to a successful conclusion in every case save for the small number of industrial tribunal claims which have yet to be heard but the impact of which is not material.

Your Company will continue to review costs and endeavour to reduce fixed costs whilst maintaining a low overhead structure. The excellent work carried out in terms of managing the working capital will be continued through strict disciplines and systematic review.

Current trading and Outlook

The management of Inveresk is now in a position to focus on its chosen markets as never before. The torrid period of inward problem solving has now come to a welcome conclusion. Management at both mills continue in their efforts to maximise production through selective capital expenditure and planned maintenance programmes with customer focus remaining a primary objective.

Greater emphasis is being placed on product innovation so as to increase our product offering and our mill teams are working cohesively with our valued customers to respond to their technical and service level requirements. As previously stated, 2003 was a year of two halves during which strong demand in the first six months was replaced by a period of lower sales volumes due to de-stocking in most markets. Encouragingly, the period since November 2003 has seen order levels recovering to normal and during the first 10 weeks of 2004 both mills have been operating at a high level of capacity utilisation. The launch of new products to a receptive market is likely to have a significant impact in the current year and beyond. Greater utilisation of our proven technical expertise in niche markets creates a competitive advantage which increasingly gives the opportunity to place new products before our customers with a greater level of technical sophistication to meet their specific requirements.

One of the Company's principal assets remains its management and staff to whom we offer our grateful thanks for their efforts during the past year. As part of our outward thinking considerable emphasis is being placed on training and personal development of managers within the organisation. This process is likely to be continuous and meritorious performance will be recognised and rewarded.

Your Board of Directors views the future with confidence. We remain dedicated to the interests of our shareholders and recognise the need to create and build shareholder value. Significant progress has been made during 2003 and we will continue to explore all opportunities which are likely to be beneficial to the continued well being of your Company, its customers, employees and shareholders.

Jan Bernander
10 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the financial year ended 31 December 2003

Year ended 31 December 2003	13 months ended 31 December 2002					
Total	Continuing Mill Business	Unallocated Head Office Costs	Total Continuing Activities	Discontinued Activities	Total	
£'000	£'000	£'000	£'000	£'000	£'000	
Turnover	39,742	44,682	-	44,682	37,257	81,939
Cost of Sales	(31,995)	(35,070)	(865)	(35,935)	(37,172)	(73,107)
Gross profit/(loss)	7,747	9,612	(865)	8,747	85	8,832
Distribution costs	(3,189)	(3,532)	-	(3,532)	(3,655)	(7,187)
Administrative expenses	(2,530)	(2,978)	(570)	(3,548)	(1,909)	(5,457)
Group operating profit/(loss)	2,028	3,102	(1,435)	1,667	(5,479)	(3,812)
Share of operating profit in associate	-	-	-	-	72	7
Total Group operating profit/(loss)	2,028	3,102	(1,435)	1,667	(5,407)	(3,740)
Fundamental reorganisation credit/(costs)	704	(71)	(3,593)	(3,664)	(2,010)	(5,674)
Gain/(loss) on sale and termination of businesses	1,216	-	-	-	(12,929)	(12,929)
Attributable goodwill written off to reserves	-	-	-	-	(11,536)	(11,536)
Profit on sale of associate	-	-	-	-	803	80
Profit/(loss) before interest	3,948	3,031	(5,028)	(1,997)	(31,079)	(33,076)
Net interest payable – Group	(645)					(1,371)
Share of associate's interest	-					(11)
Other finance (expense)/ income	(271)					15
Profit/(loss) on ordinary activities before taxation	3,032					(34,306)
Taxation on profit/(loss) on ordinary activities	130					5,111
Profit/(loss) for the financial period	3,162					(29,188)
Dividends	(360)					
Retained profit/(loss) for the financial period	2,802					(29,188)
Basic earnings/(loss) per share	2.7p					(56.3)
Diluted earnings/(loss) per share	2.6p					(56.3)
Earnings/(loss) per share before exceptional items	1.1p					(3.8)

A final dividend of 0.25p on 143,804,750 ordinary shares is proposed for the financial year ended 31 December 2003 (2002: nil).

CONSOLIDATED BALANCE SHEET
At 31 December 2003

	2003	2002
	£'000	£'000
Fixed assets		
Tangible assets	26,394	28,470
Investments	400	300
	26,794	28,770
Current assets		
Stocks	4,842	3,597
Debtors	7,808	11,599
Debtors – deferred taxation	3,750	3,750
Cash at bank and in hand	70	329
	16,470	19,275
Creditors: amounts falling due within one year		
Bank overdrafts and short term debt	(8,146)	(15,040)
Other creditors	(8,478)	(20,834)
	(16,624)	(35,874)
Net current liabilities	(154)	(16,599)
Total assets less current liabilities	26,640	12,171
Creditors: amounts falling due after more than one year	(8,000)	-
Provisions for liabilities and charges	(601)	(4,916)
Net assets excluding pension assets/(liabilities)	18,039	7,255
Pension assets/(liabilities)		
Defined benefit schemes with net assets	3,166	-
Defined benefit schemes with net liabilities	(3,910)	(3,615)
Net assets including pension assets/(liabilities)	17,295	3,640
Capital and reserves		
Called up share capital	1,438	5,382
Share premium account	-	14,426
Revaluation reserve	11,369	11,549
Capital redemption reserve	-	173
Profit and loss account	4,488	(27,890)
Total equity shareholders' funds	17,295	3,640

CONSOLIDATED CASH FLOW STATEMENT
for the financial year ended 31 December 2003

	Year ended 31 December 2003 £'000	13 months ended 31 December 2002 £'000
Net cash (outflow)/inflow from operating activities	(9,192)	2,343
Returns on investment and servicing of finance	(886)	(1,553)
Capital expenditure and financial investment	167	(1,854)
Acquisitions and disposals	-	5,285
Net cash (outflow)/inflow before financing	(9,911)	4,221
Financing	8,827	(2,302)
(Decrease)/increase in cash in the period	(1,084)	1,919

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	(1,084)	1,919
(Decrease)/increase in cash in the period	(281)	2,302
Cash (inflow)/outflow from debt and lease financing		
Change in net debt resulting from cash flows	(1,365)	4,221
Net debt at beginning of the period	(14,711)	(18,932)
Net debt at end of the period	(16,076)	(14,711)

Notes to the accounts

Note 1

The financial information set out in this announcement does not constitute the Group's statutory accounts for either the financial year ended 31 December 2003 or the 13 months ended 31 December 2002 but is derived from those accounts. Statutory accounts for 2002 have been delivered to the Registrar of Companies, whereas those for 2003 will be delivered shortly. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Note 2

EXCEPTIONAL ITEMS

Exceptional (credits)/charges included within the profit/(loss) on ordinary activities before taxation are analysed as follows:

	Year ended 31 December 2003 £'000	13 months ended 31 December 2002 £'000
Fundamental reorganisation costs		
Fixed asset writedowns	-	1,456
Restructuring costs	-	4,218
Release of unused provisions	(704)	-
	(704)	5,674
Loss on sale and termination of businesses		
(Profit)/loss on termination of labels business	(600)	8,618
Loss on sale of Graphics business	1,024	2,616
(Profit)/loss on sale of Kilbagie Mill	(375)	1,695
Release of unused provisions	(1,265)	-
	(1,216)	12,929
Attributable goodwill written off to reserves	-	11,536
	(1,216)	24,465
Profit on sale of associate	-	(803)
Total exceptional (credits)/charges	(1,920)	29,336

Note 3

EARNINGS / (LOSS) PER SHARE

	Year ended 31 December 2003	13 months ended 31 December 2002	Year ended 31 December 2003	13 months ended 31 December 2002
	Earnings/(loss) £'000	Earnings/(los s) £'000	Earnings/(lo ss) pence per share	Earnings/(loss) pence per share
Basic	3,162	(29,188)	2.7	(56.3)
Adjusted for:				
Exceptional (credits)/costs	(1,920)	29,336	(1.6)	56.6
Tax relief on exceptional (credits)/costs	-	(2,100)	-	(4.1)
Adjusted basic	1,242	(1,952)	1.1	(3.8)
Diluted	3,162	(29,188)	2.6	(56.3)

The adjusted figures are shown to provide shareholders with additional information on operations before exceptional items.

Earnings per share are calculated for the issued shares excluding those registered in the name of The Inveresk ESOP Trustee Company Limited in accordance with UITF 13.

The weighted average number of shares used in each calculation is as follows:

	Year ended 31 December 2003	13 months ended 31 December 2002
	Number of shares (000s)	Number of shares (000s)
Average of shares in issue during the financial period	116,309	51,821
Adjustment for the dilutive effect of employee and director share options	4,000	-
Average of shares in issue during the financial period diluted	120,309	51,821

In 2002 the anti-dilutive effect of share options was excluded from the diluted earnings per share calculation

In 2003 the effect is dilutive and therefore the share options are included in the 2003 diluted calculation

Note 4

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Profit/(loss) for the financial period	3,162	(29,188)
Dividends	(360)	-
Retained profit/(loss) for the financial period	2,802	(29,188)
Other recognised gains for the financial period	2,307	19,722
Issue of ordinary shares	6,346	-
Loans converted to equity	2,200	-
Net increase/(reduction) in shareholders' funds	13,655	(9,466)
Shareholders' funds at the beginning of financial period	3,640	13,106
Shareholders' funds at end of financial period	17,295	3,640

Note 5

DIVIDENDS

A final dividend of 0.25p per ordinary share, amounting to £360,000, is proposed for the financial year ending 31 December 2003 (2002 : nil).

Note 6

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	Year ended 31 December 2003 £'000	13 months ended 31 December 2002 £'000
Group operating profit/(loss)	2,028	(3,812)
Exceptional credits/(charges)	1,920	(17,800)
Depreciation charges	1,089	2,509
Impairment of fixed assets	1,319	7,046
Amortisation of government grants	(3)	(3)
Loss/(gain) on sale of tangible fixed assets	1	(19)
Gain on sale of associate	-	(803)
Gain on sale of tangible fixed assets – exceptional items	(600)	(479)

Pension curtailments	-	(927)
Movement on net pension asset/liability	(700)	(255)
(Increase)/decrease in Stocks	(1,245)	5,300
Decrease in Debtors	3,791	8,359
(Decrease)/increase in Creditors	(12,477)	1,607
(Decrease)/increase in provisions	(4,315)	1,620
Net cash (outflow)/ inflow from operating activities	(9,192)	2,343

Note 7

ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	Year ended 31 December 2003 £'000	13 months ended 31 December 2002 £'000
Returns on investment and servicing finance		
Interest received	15	115
Interest paid	(901)	(1,668)
	(886)	(1,553)
Capital expenditure		
Purchase of tangible fixed assets	(333)	(1,879)
Purchase of own shares	(100)	-
Sale of tangible fixed assets	600	25
	167	(1,854)
Acquisitions and disposals		
Sale of Kilbagie mill	-	1,685
Sale of associate	-	746
Sale of tangible fixed assets	-	854
Sale of Caldwells business	-	2,000
	-	5,285
Financing		
Issue of ordinary share capital	6,346	-
Bank and other loans repaid	(7,713)	(2,287)
New bank loan	8,000	-
New loans (since converted to ordinary shares)	2,200	-
Capital element of hire purchase payments	(6)	(15)
	8,827	(2,302)