

INVERESK PLC

(“Inveresk” or “the Company”)

Preliminary Results for 12 months to 31 December 2004

Inveresk is pleased to announce its annual results for the 12 months to 31 December 2004.

In difficult market conditions, the Company recorded a pre-tax profit of £0.184M compared to £3.162M for the 12 months to 31 December 2003.

Highlights 2004

- Inveresk’s sales increased by 2.4% to £40.7M (2003 £39.7M) despite the negative impact of adverse currency variations
- Volume of tonnes sold up by 9.5% to 42,877 (2003 39,167) year on year but profits eroded by adverse currency influences throughout 2004.
- Proposed dividend payment of 0.25p, in line with previous year, reflecting the Board’s confidence in the Company’s future prospects.
- Successful relaunch of Gemini SBS coated boards at Carrongrove plus the introduction of InverX Pure and InverX Superfine to global markets.
- Planned penetration of Gemini into US and Canadian markets in final quarter of 2004 with the appointment of 3 major distributors
- St Cuthberts tonnage sold was up year on year by 4.3% with new product development and major new customers offering expansion opportunities for the future.
- £1M taken out of combined mills’ fixed costs on a year on year basis including moving to a 4 shift pattern at St Cuthberts to maximise operating efficiencies
- Improved operating efficiencies at both mills with reduction in machine downtime and broke levels leading to increased productivity
- Asset realisation programme on track in terms of sales and cash generation including sales of plant and equipment, sales of peripheral sites and the advancement of the “master plan” for the principal site at Inverkeithing Bay in Fife
- Following the adoption of FRS17 in respect of the two closed defined benefit pension schemes, the 2003 net pension deficit has been turned into a net surplus in 2004.
- The appointment of Stephen Mason, an experienced paper industry specialist, as a Non Executive Director.

Alan Walker, Chief Executive commented “*Volume increases leave us well positioned to take advantage of any structural changes which arise from price and currency movements. Costs remain under control but are subject to rigorous review. Significant benefits will accrue as the asset realisation programme falls to cash and retires debt.*”

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Jan Bernander	Chairman	(00 46) 708 556 400

CHAIRMAN'S STATEMENT

Results

Your Company has experienced a difficult year throughout 2004 characterised by weak demand in many international markets, by over capacity in the industry which has acted as a disincentive to increase sales prices to cover increases in energy and raw material costs, and by significant adverse currency influences. As already reported at the interim stage because the company sells almost 65% of its products overseas the results are heavily influenced by currency movements of both the US dollar and the Euro. The company's increased level of sales into North America is to a large extent hedged by the purchases of pulp transacted in US dollars whereas the weakening of the Euro against Sterling for most of 2004 had a negative impact on profits which would have been approximately £0.725M higher if the exchange rates had remained the same.

Turnover for 2004 was £40.71M as compared to £39.74M for the corresponding year in 2003. Operating profits were £0.90M (2003 £2.03M) before exceptional charges of £0.29M whilst profits after interest but before tax amounted to £0.18M (2003 £3.03M) giving earnings per share of 0.1p (2003 2.7p).

Whilst these results are broadly in line with mid year expectations your Board of Directors is disappointed with these figures which are generally a reflection of the cyclical trough through which the industry has been travelling over the past eighteen months. The interest charges of £1.102M (2003 £0.645M) are high as compared to the previous year due to the regular increases in base rate imposed by the Bank of England throughout 2004 and also due to the fact that the creditors' equalisation from which the company benefited in 2003 had ended in the latter part of 2003. Successful disposal in due course of the major land asset within the asset realisation programme at Inverkeithing, which I refer to later in my statement, will lead to a substantial reduction in external borrowings (with a corresponding reduction in the amount of interest) required to service both the working capital needs of the business and the selective capital expenditure identified for future reinvestment in plant and equipment deemed necessary to maintain the integrity of the productive capacity within both mills.

The Balance Sheet continues to be in good order, and it remains one of the principal aims of your Board of Directors to de-gear the borrowing levels through the disposal of land assets which are peripheral to the company's core paper business so as to maximise both cash flow and profitability in the future.

Shareholders will note that the auditors' report for 2004 contains a technical qualification in respect of a disagreement between them and the Directors as to the accounting treatment of a sale of land, namely, Borelands Reservoir in Inverkeithing in Fife, which in their opinion did not take place until 2005 and therefore should not have been recorded in the accounts for 2004. Your Board strongly believes that inclusion of this sale in the 2004 accounts portrays clearly to shareholders very much what happened in reality. In August 2004 the Company entered into a conditional contract to sell Borelands Reservoir but this sale did not conclude post year end as the purchaser was unable to proceed to completion. In March the Company moved quickly into an unconditional contract with a major developer to acquire the same land and the contract was financially completed on 7 April, and in the Directors' view this sale is a straight substitution for the earlier one. If the sale had not been recognised in 2004 the effect would have been to change the profit for the year of £0.184M into a loss for the year of £0.417M, which in your Board's opinion would have been misleading to shareholders.

Dividend

Despite the difficult trading conditions which prevail in most markets including those on continental Europe where we operate, your Directors have decided to recommend the payment of a final dividend of 0.25p per share in line with that which was declared last year. Whilst this dividend is not fully covered by post tax profits it is a measure of your Board's confidence in the steps which are being taken in the day to day business, coupled with the belief we have in being able to complete the asset realisation programme in due course to the advantage of all those associated with our Company, that we wish to maintain our dividend policy at this time. If approved by Shareholders at the forthcoming Annual General Meeting the dividend will be paid on 1 July 2005 to shareholders on the register on 3 June.

Papermaking

The Company operates from its two speciality mills at Carrongrove outside Stirling in Scotland and St Cuthberts adjacent to the City of Wells, Somerset in England. At Carrongrove the downturn in demand experienced in the second half of 2003 continued through to the summer months of 2004. It was only in the final quarter of the year with the appointment of three major distributors to the North American market that volumes increased in line with our stated objectives. This success allowed overall volumes to grow by over 10% year on year. Further growth in volume is expected in 2005 as order books remain healthy with efforts being more directly focused on customer service and the spring 2005 launch of InverX Pure and InverX Superfine. Sales prices remain predictably static as competitors refuse to recognise the difficulties faced by over capacity in the industry and the inevitable struggle to control costs which are rising disproportionately given the increases in energy and raw materials which are already biting and which are directly associated with the price of oil. Fortunately pulp prices have remained stable throughout the period and active steps are taken to manage our future requirements of pulp in line with our own and industry forecasts.

At St Cuthberts a slow start to the year, which was a reflection of a downturn within the furniture industry, gave way to a strengthening of order books from September 2004 which coincided with a move from 5 to 4 shift working which has been a demonstrable success and which has significantly reduced fixed costs in the mill. Demand for our highly specialised pre-impregnated resin based decorative papers has remained at similar levels to 2003 with an increase of 4.3% in volume tonnes sold. Active steps have been taken to differentiate ourselves from other producers by using the considerable technical expertise within the mill to successfully engineer lower cost material for less demanding applications. The technical demands placed on producers are greater than ever and in order to protect our customers from raw material increases it is incumbent upon us to work with them in terms of technical innovation in order to create bespoke product applications which are often unique to that particular customer or indeed the equipment on which they process our product. This creates a high level of interaction between customer and supplier and as a result we have seen a significant increase in the number of customers who wish to work with us.

With regard to artist papers there have been a number of structural changes in the distribution routes to market for these products in 2004 which has somewhat restricted our ability to grow within this lucrative market niche. However these changes have created a number of opportunities and we intend to approach the market with renewed dynamism following the decision to offer converted pads of our watercolour papers as part of our product range. Our Bockingford (artist) and Somerset Enhanced (inkjet) brands rank among the best known branded products which are available in today's global market and we are currently evaluating how best to exploit the significant potential which exists within this product area where we have considerable expertise. Here again the weakness of the US dollar has had a pronounced effect on unit sales of these quality products. The challenge in 2005 is to increase our market share through a focused sales and marketing campaign.

Continuing Commitment To Customer Service

Inveresk recognises that product acceptance is not so much won as awarded by customers. To retain the support of loyal customers, unceasing efforts are being made across both mills to push back the boundaries in the search for excellence of service in all its facets. Because each of our businesses within Inveresk works in a unique market situation each develops its own response to the service challenges, and examples of such responses include:-

- Major initiatives launched at Carrongrove to address just-in-time deliveries and our ability to supply graphic board into new defined areas of the market on time and in the right quantity and quality.
- At St Cuthberts the development of technical strategic alliances with specific customers designed to reengineer product offerings to assist customers to meet special requirements within their own production environment in a cost effective manner.
- Our commitment to comply with the increased demands imposed by changing legislation at both mills in respect of Health & Safety at work and our responsibilities in the area of effluent treatment.

- The importance of training both within the mills and also for high profile merchants who distribute our product and need an increasing level of comprehension as to the range of applications to which our products are ideally suited.

Capital Expenditure

Through a policy of active repair and maintenance throughout 2004 the operability of our various paper making machines has been good but remains under constant review. Our management teams have identified a number of capital projects which, with the exception of those which are needed to comply with Health & Safety legislation, are designed to promote efficiency as well as produce a rapid payback in terms of return on capital.

Asset Realisation Programme

We are pleased to be able to confirm to shareholders that we are on track so far as this programme is concerned. Sales of plant and equipment from the closed Caldwell's Mill will conclude shortly with the disposal of the last few items which remain. Buyers for this equipment have visited the mill from all corners of the world. The Borelands Reservoir has now been sold unconditionally and the deal has completed financially, yielding a realised profit in line with expectations. There are other projects on which we are continuing to work including, inter alia, the future use of the main Caldwell site adjacent to the banks of the River Forth located at Inverkeithing Bay in Fife. It is now within the public domain that the planners at Fife Council have a "master plan" which is destined to change the landscape surrounding the town of Inverkeithing encompassing the entire area around the bay. This massive project will have a substantial impact on the area which is within commuting distance of the City of Edinburgh. Our discussions with potential developers, land owners and waterside development specialists are continuing in conjunction with the planners with whom we continue to work closely, so that in time Fife can be proud of the eventual transformation from the present example of industrial decay to a vibrant new community to include leisure, business and housing and which will herald the regeneration of the entire area into a better living environment for those residing and working there. We will continue in our efforts to deliver this pivotal project for the enhancement of the local community, the financial benefits of which will accrue in terms of shareholder value.

The Board

This year the Board has been strengthened by the appointment of Stephen Mason as a Non-Executive Director of the Company. Stephen is a highly respected and experienced paper industry specialist who brings to the Company a wealth of industry knowledge and contacts gained in a career lasting no less than 36 years as the former Chairman of UK, Ireland and South African operations of Paperlinx.

Employees

On behalf of your Board I extend sincere thanks to all Inveresk employees for their hard work, dedication and enthusiasm during 2004. It is the collective efforts of all employees that play such a vital part in converting strategies into business realities.

Current Trading and Outlook

The paper industry has not been a place for the faint hearted over the past year or two. The industry is high on fixed cost and the bureaucracy which attaches to the increasing levels of Health & Safety legislation are not applied uniformly across international borders including many countries within the EU. The industry is crying out for change, consolidation and integration and there is evidence to suggest that structural changes are taking place. At Inveresk we remain highly specialised within the confines of industry segments which are mature but where technical innovation has an important role to play. We continue to explore regularly strategic opportunities as they present themselves and remain fully committed to the improvement of shareholder value through the harvesting of our underutilised peripheral assets and by corporate activity through partnership, strategic alliance or merger with like-minded European producers.

The current year has started positively in terms of volume but sales price increases are elusive in international markets where either demand is slow to pick up or where competitive pressures including currency influences mean in real terms that prices are treading water.

I am confident therefore that Inveresk has a good future as a focused niche supplier of quality papers where our technical innovation can set us apart from our competitors as we deploy our undoubted skills and expertise to market our quality brands to a wider international audience. Our core businesses remain sound with growth dynamics which may be influenced by the strength of the Euro and we await with interest the outcome of our asset realisation programme which will play such a pivotal role in the near future.

Jan Bernander
Chairman
13 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the financial year ended 31 December 2004

	Continuing Mill Business £'000	Exceptional Items £'000	Year ended 31 December 2004 Total £'000	Year ended 31 December 2003 Total £'000
Turnover	40,711	-	40,711	39,742
Cost of Sales	(33,395)	(429)	(33,824)	(31,995)
Gross profit/(loss)	7,316	(429)	6,887	7,747
Distribution costs	(3,620)	-	(3,620)	(3,189)
Administrative expenses	(2,798)	142	(2,656)	(2,530)
Group operating profit/(loss)	898	(287)	611	2,028
Fundamental reorganisation credit	-	58	58	704
(Loss)/gain on sale and termination of businesses	-	(100)	(100)	1,216
Gain on sale of fixed assets	-	601	601	-
Profit before interest	898	272	1,170	3,948
Net interest payable – Group			(1,102)	(645)
Other finance income/(expense)			116	(271)
Profit on ordinary activities before taxation			184	3,032
Taxation on profit on ordinary activities			-	130
Profit for the financial year			184	3,162
Dividends			(360)	(360)
Retained (loss)/profit for the financial year			(176)	2,802
Basic earnings per share			0.1 p	2.7 p
Diluted earnings per share			0.1 p	2.7 p
(Loss)/earnings per share before exceptional items			(0.1) p	1.1 p

A final dividend of 0.25p on 143,804,750 ordinary shares is proposed for the financial year ended 31 December 2004 (2003: 0.25p)

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	2004	2003
	£ '000	(restated) £ '000
Fixed assets		
Tangible assets	23,980	26,394
Current assets		
Stocks	4,565	4,842
Debtors	8,462	7,808
Debtors – deferred taxation	3,750	3,750
Cash at bank and in hand	60	70
	16,837	16,470
Creditors: amounts falling due within one year		
Bank overdrafts and short term debt	(8,961)	(8,146)
Other creditors	(8,832)	(8,478)
	(17,793)	(16,624)
Net current liabilities	(956)	(154)
Total assets less current liabilities	23,024	26,240
Creditors: amounts falling due after more than one year	(6,769)	(8,000)
Provisions for liabilities and charges	(320)	(601)
Net assets excluding pension assets/(liabilities)	15,935	17,639
Pension assets/(liabilities)		
Defined benefit schemes with net assets	3,655	3,166
Defined benefit schemes with net liabilities	(3,125)	(3,910)
Net assets including pension assets/(liabilities)	16,465	16,895
Capital and reserves		
Called up share capital	1,438	1,438
Revaluation reserve	11,260	11,369
Profit and loss account	3,767	4,088
Total equity shareholders' funds	16,465	16,895

CONSOLIDATED CASH FLOW STATEMENT
for the financial year ended 31 December 2004

	Year ended 31 December 2004 £ '000	Year ended 31 December 2003 £ '000
Net cash inflow/(outflow) from operating activities	294	(9,192)
Returns on investment and servicing of finance	(1,059)	(886)
Capital expenditure and financial investment	1,531	167
Dividends paid	(360)	-
Net cash inflow/(outflow) before financing	406	(9,911)
Financing	-	8,827
Increase /(decrease) in cash in the year	406	(1,084)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year ended 31 December 2004 £ '000	Year ended 31 December 2003 £ '000
Increase/(decrease) in cash in the year	406	(1,084)
Cash inflow from debt and lease financing	-	(281)
Change in net debt resulting from cash flows	406	(1,365)
Net debt at beginning of the year	(16,076)	(14,711)
Net debt at end of the year	(15,670)	(16,076)

Notes to the accounts

Note 1

The financial information set out above does not constitute the Company's statutory accounts for years ended 31 December 2004 or 2003 but is derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies, and those for 2004 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their report for 2003 was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The auditors' report for 2004 was qualified in respect of a disagreement as to the recording of a sale of land which in their opinion did not take place until 2005 and therefore should not have been recorded in the accounts for the year ended 31 December 2004. If the sale had not been recognised the effect would have been to change the profit for the year of £184,000 into a loss for the year of £417,000 and to reduce Group and Company debtors at 31 December 2004 by £650,000 and reduce Group and Company provisions at 31 December 2004 by £49,000. Their report did not contain a statement under sections 237(2) or (3) of the Companies Act 1985.

Note 2

PRIOR YEAR ADJUSTMENT

As a result of adopting UITF 38 "Accounting for ESOP trusts" the investment of the Group in its own shares, to satisfy employee share option obligations, is presented as a deduction in shareholders' funds rather than as an asset. This adjustment has had the effect of reducing the net assets at 31 December 2004 by £767,000 to £16,465,000 (2003: a reduction of £400,000 to £16,895,000). There is no effect on the profit and loss account for the year or the previous year.

Note 3

EXCEPTIONAL ITEMS

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

	Year ended 31 December 2004 £ '000	Year ended 31 December 2003 £ '000
Cost of Sales – Operating exceptional costs		
New product development	119	-
Mill restructuring	310	-
	429	-
Administrative expenses – Operating exceptional credit		
Release of onerous lease provision	(142)	-
	(142)	-
Fundamental reorganisation costs		
Release of unused provisions	(58)	(704)
	(58)	(704)
Loss /(gain) on sale and termination of businesses		
Profit on termination of labels business	-	(600)
Loss on sale of Graphics business	278	1,024
Profit on sale of Kilbagie Mill	-	(375)
Release of unused provisions	(178)	(1,265)
	100	(1,216)
Gain on sale of fixed assets	(601)	-
Total exceptional credits	(272)	(1,920)

In August 2004 the Group entered into a conditional contract to sell a piece of land. In March 2005 the purchaser withdrew from the contract. Also in March 2005 the Group then entered into an unconditional contract with another party to acquire the same land and the contract was settled on 7 April 2005. In the opinion of the directors the original 2004 contract conditional only upon planning permission has been replaced with an unconditional contract, with a financially strong purchaser, which has now been settled and the sale therefore is recorded in the accounts for the year ended 31 December 2004.

Note 4

EARNINGS/(LOSS) PER SHARE

	Year ended 31 December 2004 Earnings/(loss) £ '000	Year ended 31 December 2003 Earnings/(loss) £'000	Year ended 31 December 2004 Earnings/(loss) pence per share	Year ended 31 December 2003 Earnings/(loss) pence per share
Basic	184	3,162	0.1	2.7
Adjusted for:				
Exceptional credits (note 3)	(272)	(1,920)	(0.2)	(1.6)
Adjusted basic	(88)	1,242	(0.1)	1.1
Diluted	184	3,162	0.1	2.7

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 2004 Number of shares (000s)	Year ended 31 December 2003 Number of shares (000s)
Average of shares in issue during the financial period	139,531	116,309
Adjustment for the dilutive effect of employee and director share options	1,143	1,214
Average of shares in issue during the financial period diluted	140,674	117,523

Note 5

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the financial year ended 31 December 2004

	Year ended 31 December 2004 £ '000	Year ended 31 December 2003 (restated) £ '000
Profit for the financial year	184	3,162
Dividends	(360)	(360)
Retained (loss)/profit for the financial year	(176)	2,802
Shares purchased by ESOP trust	(417)	(100)
Share options expensed	50	-
Other recognised gains for the financial year	113	2,307
Issue of ordinary shares	-	6,346
Loans converted to equity	-	2,200
Net (decrease)/increase in shareholders' funds	(430)	13,555
Shareholders' funds at the beginning of financial year	16,895	3,340
(originally £17,295,000 restated for prior year adjustment of -£400,000)		
Shareholders' funds at the end of the financial year	16,465	16,895

Note 6

DIVIDENDS

A final dividend of 0.25 p per ordinary share, amounting to £360,000, is proposed for the financial year ending 31 December 2004 (2003 : 0.25p).

Note 7

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

	Year ended 31 December 2004 £ '000	Year ended 31 December 2003 £ '000
Group operating profit	611	2,028
Exceptional credits	559	1,920
Depreciation charges	1,068	1,089
Impairment of fixed assets	-	1,319
Expensing of share options	50	-
Amortisation of government grants	(2)	(3)
(Gain)/loss on sale of tangible fixed assets	(1)	1
Gain on sale of tangible fixed assets – exceptional items	(601)	(600)
Movement on net pension asset/liability	(1,045)	(700)
Decrease/(increase) in Stocks	277	(1,245)
(Increase)/decrease in Debtors	(654)	3,791
Increase/(decrease) in Creditors	313	(12,477)
Decrease in provisions	(281)	(4,315)
Net cash inflow/(outflow) from operating activities	294	(9,192)

Note 8

ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	Year ended 31 December 2004 £ '000	Year ended 31 December 2003 £ '000
Returns on investment and servicing finance		
Interest received	26	15
Interest paid	(1,085)	(901)
	(1,059)	(886)
Capital expenditure		
Purchase of tangible fixed assets	(719)	(333)
Purchase of own shares by ESOP	(417)	(100)
Sale of tangible fixed assets	2,667	600
	1,531	167
Financing		
Issue of ordinary share capital net of expenses	-	6,346
Bank and other loans repaid	-	(7,713)
New bank loans	-	8,000
New loans	-	2,200
Capital element of hire purchase repayments	-	(6)
	-	(8,827)