

Inveresk PLC
(“Inveresk” or the “Company”)

Interim Results for 6 months ended 30 June 2008

Highlights 2008

- Losses attributable to shareholders of £0.438M for the 6 months to 30 June 2008 compared to profits of £3.312M for the 6 months to 30 June 2007.
- Continuation of margin decline on PIP furniture/décor sales to levels considered to be unsustainable. Attempts to sell this business collapsed in May 2008 due to dire state of this niche market and wholesale financial and structural problems at potential buyers. Consequently the PM1 machine at St Cuthberts closed on 1 July 2008.
- Letter of Intent signed with Chinese paper manufacturer to establish a Joint Venture in China to manufacture and sell PIP papers using the Company’s technical expertise, customer contacts and our PM1 machine.
- Resilient performance from our artists’ paper activities where volumes have remained disappointing whereas sales prices and currency influences have helped to maintain margins.
- Our alternative real estate strategy endorsed by independent valuations over the Company’s freehold brownfield sites in the range of £22M to £25M subject to appropriate planning consents.
- Notwithstanding the adverse economic environment which prevails at present positive progress has been made in relation to the potential alternative uses to which our Inverkeithing and Wells brownfield sites will be turned over time.
- Financial facilities renewed by HBOS in December 2008 pursuant to the proposed merger with Lloyds TSB and the intervention of the Government via its nationalisation initiatives.
- Litigation success against Tullis Russell Papermakers Ltd in respect of their default in settling their additional consideration obligations. Robust judgements in favour of the Company on 15 February and 29 August 2008 pending appeal on the part of Tullis Russell Papermakers Ltd.
- Our focus remains on exiting the paper industry and the harvesting of our realisable assets of approximately £30M in order to become debt free and generate cash resources for the ultimate benefit of our shareholders.

Alan Walker, Chief Executive, commented:

“We are pleased to be able to release these Interim Results so that our shares can be relisted from suspension on the London Stock Exchange and we can move on. The past few months have witnessed a massive distraction from the day to day running of our business due to the impact of the banking crisis and the management of the unrealistic expectations amongst the conflicting interests of bankers and auditors alike.

We enter 2009 sure in the knowledge that the strategy which we embarked upon back in 2005 is correct and the one most likely to deliver satisfactory returns to shareholders.”

For further information contact:

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Oliver Scott KBC Peel Hunt 0207 418 8900
Nominated Adviser and Broker

Chairman's Statement

Business Overview

The first six months of 2008 was a most difficult period for the paper industry as a whole and saw a continuation of margin erosion within our PIP furniture/décor business where volumes fell as a result of the growing economic downturn in most parts of the world. Only through positive currency influences arising from our sales in euros were we able to sustain this business to give competitors the opportunity to acquire and merge our PIP business assets with theirs in order to maximise capacity utilisation in the hands of one producer thereby allowing excess capacity to be eliminated from the market.

However, all attempts to merge our assets with stronger European competitors with more modern equipment foundered in late May 2008 leaving your Board with no alternative but to close PM1 at St Cuthberts on 1 July 2008 in favour of our alternative plan of signing a Letter of Intent with a Chinese paper manufacturer with a view to establishing a Joint Venture in which our technical expertise, customer contacts as well as our PM1 machine will form the basis of our equity investment.

Our artist and inkjet papers business performed more or less to expectation with volumes slightly depressed but sales prices proving to be highly resilient and currency influences mostly positive. Raw material and energy prices had increased significantly during 2007 and early 2008 thoroughly justifying the need to increase sales prices after the end of the half year. The market in North America remained depressed whereas the UK market performed robustly. Increased penetration into markets in the Far East led to improved sales in a number of countries located around the Pacific Rim. There appears to be global appeal for most of our branded products which include such papers as Bockingford, Saunders Waterford, Somerset Photo and Somerset Enhanced.

Results

As recently reported on our 2007 Annual Report and Accounts our results are prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU ("adopted IFRSs"). On a turnover of £7.256M (2007: £6.826M) we incurred an operating loss of £0.874M (compared to a loss of £0.974M in the same period of 2007). A pre tax loss of £0.438M compares with a profit of £3.312M in the same period of 2007 including the sale of the Carrongrove site at that time.

Included within the half year loss at 30 June 2008 is the Additional Consideration payable to the Company by Tullis Russell Papermakers Ltd ("Tullis Russell") pursuant to the Asset Sale Agreement dated 8 June 2005. This Additional Consideration was calculated by Tullis Russell to amount to £909,000 to which Inveresk agreed but Tullis Russell defaulted and failed to make payment as provided for in the agreement. As a consequence of Tullis Russell falling into breach of their payment obligations your Directors have pursued this matter vigorously in the Court of Session in Edinburgh. On 15 February 2008 and again on 29 August 2008 the Court of Session through two different senior commercial judges opined emphatically in favour of Inveresk. Tullis Russell has declined to accept the judgements and the matter is currently with the Court of Appeal in Edinburgh pending resolution. Your Board of Directors together with their legal advisors remain confident that this Additional Consideration is properly due to Inveresk and accordingly believe at this stage that it is appropriate to recognise the revenue stream of £1,009,000 in these Interim Results for 2008 being the minimum Additional Consideration due of £909,000 and an estimate of interest (which has also been awarded in Inveresk's favour) of £100,000 up to 30 June 2008. Any contingent risk will be dealt with in the ordinary course of business as litigation with Tullis Russell develops over time and falls into the public domain.

Asset Realisation Programme

Your Board's view back in 2005 was that the manufacture of paper in the United Kingdom was no place for the faint hearted and that in global terms neither we nor any of the UK's producers could honestly claim to have a sustainable business model going forward.

For this reason we developed an alternative strategy to exit discreetly from the manufacture of paper in favour of the development of our freehold brownfield sites into a combination of commercial and residential schemes in association with the local planning authorities where our sites are located. We achieved success with this strategy through the sale of our Carrongrove site near Falkirk back in June 2007. As shareholders will realise the real estate market has changed dramatically over the past 18 months with most of the large developers and/or housebuilders suffering financial traumas in a market which for the time being has no demand from customers who are unable to obtain mortgage finance due to the collapse in available funding arising out of the well publicised banking crisis.

We view both our Inverkeithing and Wells projects as medium term investments as in each case a significant amount of detailed work is required to refine the planning consents which we believe we will ultimately obtain in each case. In April 2008 and again in October 2008 we obtained independent valuations of the sites in the range of £22M to £25M which considerably exceed the values carried in our balance sheet as at 30 June 2008.

Ongoing discussions continue with the planning authorities in both Fife and Somerset. There are obvious advantages in our sites being of a brownfield nature and we together with our advisers intend to take the initiative in relation to securing planning consents at both locations which will permit redevelopment in due course and will ultimately bring practical benefits to the local communities in both cases. In the course of the past week the revised Structure Plan for the Fife Region in Scotland has been issued and its contents are generally in line with our expectations which are conducive to the planning initiatives envisaged for this brownfield site.

In addition we have a varied portfolio of assets including the positive effects of turning pre-ordered inventories in our now discontinued PIP business into receivables and ultimately cash. All other assets contained in our balance sheet will be progressed into cash with the aim of being debt free as rapidly as possible.

Your Directors estimate that we hold a combination of assets with a value of approximately £30M given anything like normal market conditions. Against this we have recently renewed our banking facilities with HBOS at the same level as in 2007 i.e. £8.1M made up of term debt and overdraft facilities. Shareholders will appreciate that when we suspended our shares on 24 June 2008 we found ourselves one week away from a Stock Exchange deadline and HBOS were unable to confirm to us that they would be able to renew our funding facilities in such a way which would allow us to track the cash flows to meet the day to day working capital requirements of the business going forward, including the imminent closure of our PIP business at that time. Over the past few months the status of HBOS has been clarified with the intervention of the Government and its nationalisation initiative allied to the proposed merger with Lloyds TSB. This improved status for HBOS has allowed us to renew our facilities in a manner satisfactory to your Directors and to our Auditors in terms of the headroom available to the Company so that your Directors can continue to harvest the asset base and eliminate debt.

Outlook and Shareholder Value

Now that our banking facilities have been formally renewed and a number of supportive shareholders have agreed to lend the Company up to £1M in order to meet any “spikes” in our cash flows, we move towards 2009 unencumbered by the debilitating losses which accompanied our PIP business. Our balance sheet is sound with shareholders funds in excess of £10M before cognisance of the revaluation surpluses which attach to our freehold brownfield sites, the eventual sale of which is pivotal to the ultimate delivery of shareholder value when markets begin to recover their composure and we emerge from economic recession.

Jan Bernander
Chairman
22 December 2008

Consolidated Income Statement (unaudited)
For 6 months ended 30 June 2008

		6 months ended	6 months ended	Year ended
		30 June	30 June	31 December
		2008	2007	2007
	Note	£'000	£'000	£'000
Continuing operations				
Revenue	2	7,256	6,826	12,951
Cost of sales		(6,747)	(6,393)	(12,474)
Gross profit		509	433	477
Distribution expenses		(458)	(414)	(787)
Administrative expenses – before restructuring costs		(925)	(931)	(1,924)
Administrative expenses – restructuring costs		-	(62)	(123)
Total administrative expenses		(925)	(993)	(2,047)
Loss from operating activities		(874)	(974)	(2,357)
Finance income		2	259	2,067
Finance expenses		(183)	(141)	(1,893)
Net finance (expense)/income		(181)	118	174
Loss before income tax		(1,055)	(856)	(2,183)
Income tax charge		-	-	(130)
Loss from continuing operations		(1,055)	(856)	(2,313)
Discontinued operations				
Profit from discontinued operations, net of tax	3	617	4,168	4,054
(Loss)/profit for the period		(438)	3,312	1,741
Attributable to:				
Equity holders of the company		(438)	3,312	1,741
From continuing and discontinued operations				
Basic (loss)/earnings per share	5	(0.3) p	2.5 p	1.3 p
Diluted (loss)/earnings per share	5	(0.3) p	2.4 p	1.3 p
From continuing operations				
Basic loss per share	5	(0.8) p	(0.6) p	(1.7) p
Diluted loss per share	5	(0.8) p	(0.6) p	(1.7) p

Consolidated Balance Sheet (unaudited)
As at 30 June 2008

	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 31 December 2007 £'000
Note			
Assets			
Property, plant and equipment	6,807	7,373	7,069
Total non-current assets	6,807	7,373	7,069
Inventories	3,662	3,129	3,355
Trade and other receivables	4,243	14,346	2,566
Employee benefits – assets	1,135	1,197	846
Cash and cash equivalents	1	8	1
Assets classified as held for sale	4	5,990	6,114
Total current assets	15,031	24,794	12,758
Total assets	21,838	32,167	19,827
Equity			
Share capital	1,438	1,438	1,438
Retained earnings	8,735	10,293	9,173
Total equity attributable to equity holders of the company	10,173	11,731	10,611
Liabilities			
Loans and borrowings	2,461	3,692	3,077
Employee benefits – obligations	-	1,432	-
Total non-current liabilities	2,461	5,124	3,077
Bank overdraft	4,006	10,281	1,566
Loans and borrowings	1,231	1,231	1,231
Trade and other payables	3,798	3,437	3,075
Provisions	169	363	267
Total current liabilities	9,204	15,312	6,139
Total liabilities	11,665	20,436	9,216
Total equity and liabilities	21,838	32,167	19,827

Consolidated Statement of Cash Flows (unaudited)
For 6 months ended 30 June 2008

	6 months ended 30 June 2008 £'000	6 months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Cash flows from operating activities			
(Loss)/profit for the period	(438)	3,312	1,741
Adjustments for:			
Depreciation	262	268	536
Net finance expense	260	299	457
Gain on sale of assets	-	(4,948)	(5,047)
Income tax credit	-	-	(237)
Pension service charge net of contributions	(288)	(258)	(578)
Change in inventories	(307)	(510)	(736)
Change in trade and other receivables	(1,677)	(11,115)	665
Change in trade and other payables	713	217	(81)
Change in provisions	(98)	(77)	(173)
Interest paid	(253)	(547)	(845)
Interest received	2	9	13
Net cash used in operating activities	(1,824)	(13,350)	(4,285)
Cash flows from investing activities			
Proceeds from sale of assets	-	10,965	11,225
Acquisition of property, plant and equipment	-	(58)	(60)
Net cash from investing activities	-	10,907	11,165
Cash flows from financing activities			
Repayment of borrowings	(616)	(616)	(1,231)
Net cash used in financing activities	(616)	(616)	(1,231)
Net (decrease)/increase in cash and cash equivalents	(2,440)	(3,059)	5,649
Cash and cash equivalents at start of period	(1,565)	(7,214)	(7,214)
Cash and cash equivalents at end of period	(4,005)	(10,273)	(1,565)

	6 months ended 30 June 2008 £'000	6 months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Reconciliation of cash and cash equivalents			
Cash and cash equivalents at end of period	(4,005)	(10,273)	(1,565)
Less bank overdraft at end of period	4,006	10,281	1,566
Cash and cash equivalents in the balance sheet at end of period	1	8	1

Consolidation Statement of Recognised Income and Expenses (unaudited)
For 6 months ended 30 June 2008

	6 months ended 30 June 2008 £'000	6 months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Retirement benefit schemes actuarial gains	-	659	1,347
Deferred tax on retirement benefit schemes	-	-	(237)
Net income and expense recognised directly in equity	-	659	1,110
(Loss)/Profit for the period	(438)	3,312	1,741
Total recognised income and expense for the period	(438)	3,971	2,851
Attributable to:			
Equity holders of the company	(438)	3,971	2,851

Consolidated Reconciliation of movements in equity (unaudited)
For 6 months ended 30 June 2008

	6 months ended 30 June 2008 £'000	6 months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Total equity at the start of the period	10,611	7,760	7,760
Total recognised income and expense for the period attributable to equity shareholders	(438)	3,971	2,851
Total equity at the end of the period	10,173	11,731	10,611

Notes to the Consolidated Interim Report

1. Accounting policies – basis of preparation

Inveresk PLC (the “Company”) is a company domiciled in the United Kingdom. This consolidated interim report contains the financial information of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2008.

The consolidated interim report was authorised for issue by the Board of Directors on 22 December 2008.

The interim statement is prepared applying the recognition and measurement requirements of IFRSs as adopted by the EU. The Company has elected not to prepare the interim statement in accordance with IAS 34 as adopted by the EU.

The interim statement does not include all the information required for full annual financial statement and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2007 which were prepared in accordance with IFRS as adopted by the EU.

The preparation of the interim statement requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results differ from these estimates. The accounting policies applied by the Company in this interim statement are the same as those applied in its financial statements as at and for the year ended 31 December 2007.

The comparative figures for the financial year ended 31 December 2007 are not the Company’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The IFRS balance sheet and income statement comparatives for the six months ended 30 June 2007 and as at 30 June 2007 differ from those reported in the 2007 interim accounts as a result of:

- a) using more detailed information which became available regarding the properties held by the Group which has removed the temporary differences previously calculated on those assets totalling £1,018,000 with a consequent adjustment on retained earnings;
- b) differences in the income statement totalling £143,000 for the six months ended 30 June 2007 are due to the same changes in the calculation of deferred tax assets and liabilities as above.

Going concern

The Group meets its day to day working capital requirements through a combination of bank overdraft and term loan facilities and shareholders’ loans. Following recent negotiations with its bankers and shareholders these facilities are in place until 31 December 2009, with further term loan facilities at a reduced level to 31 December 2010. The Directors are confident that facilities will be in place at a level sufficient to meet the Company’s and Group’s on-going requirements for the foreseeable future.

The Directors have prepared cash flow forecasts for the Group and Company for a period in excess of 12 months from the date of authorisation of these financial statements. The Group’s cash flow forecasts and projections (‘forecasts’) reflect the Directors’ plans for the coming year, including cash flows relating to the ongoing trading performance of its Artists Paper business, the closure of its Furniture Paper business including the recovery of related working capital balances, the ongoing realisation of property and other assets and claims. The forecasts completed on this basis show that the Group should be able to operate within the level of its current facilities.

The Directors recognise that the current economic climate creates uncertainty over the timing and amount of these cash flows, in particular in respect of the sale of certain assets and the timing of claims settlements. However after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Segment Reporting

Primary reporting format – business segments

Following the sale of the “Gemini” paperboard business in June 2005 there is only one business segment in the Group represented by the sole operational papermill, St Cuthberts, which together with the associated head office functions represent the continuing operations of the Group. Therefore the accounts disclosures in total, excluding those disclosed separately as representing discontinued operations, reflect the sole primary business segment of the Group.

	Continuing operations – St Cuthberts Mill		
	Interim 30 June 2008 £'000	Interim 30 June 2007 £'000	Year ended 31 December 2007 £'000
Segment Revenue	7,256	6,826	12,951
Results	Continuing operations -		
	Interim 30 June 2008 £'000	Interim 30 June 2007 £'000	Year ended 31 December 2007 £'000
	Interim 30 June 2008 £'000	Interim 30 June 2007 £'000	Year ended 31 December 2007 £'000
Segment results	(479)	(521)	(1,484)
Unallocated corporate expense			(395)
Loss from operating activities			(874)
Net finance (expense)/income			(181)
Loss before income tax – continuing operations			(1,055)
Income tax charge			-
Profit from discontinued operations, net of tax – note 3			617
(Loss)/profit after tax and discontinued operations	(438)	3,312	1,741

3. Discontinued operations

In October 2002 and June 2005 the Group sold its fine paper division and the “Gemini” paperboard business respectively, each representing a separate business segment. Both of these segments were subsequently reported as discontinued businesses for all subsequent reporting periods under adopted IFRSs.

Revenue

The revenue for each of the two discontinued business segments was £nil for the six months ended 30 June 2008 (six months ended 30 June 2007: £nil, year ended 31 December 2007: £nil).

Results	Discontinued operations		
	Interim 30 June 2008 £'000	Interim 30 June 2007 £'000	Year ended 31 December 2007 £'000
Other (losses)/gains			
- restructuring costs	(313)	(363)	(729)
- gain on sale of assets	-	4,948	5,047
- additional consideration in relation to the sale of the paperboard business	1,009	-	-
	696	4,585	4,318
Net finance costs	(79)	(417)	(631)
	617	4,168	3,687
Income tax credit	-	-	367
Profit from discontinued operations, net of income tax	617	4,168	4,054

Under the Agreement relating to the sale of the “Gemini” brand and paperboard business, there is provision for an Additional Consideration payable to Inveresk with the amount being dependent on the level of sales tonnage achieved by the buyers, Tullis Russell Papermakers Ltd, from 9 November 2005 to 8 November 2006. This Additional Consideration has been calculated by Inveresk to be a minimum of £909,000 and Tullis Russell Papermakers Ltd are currently in breach of their obligations by failing to pay this Additional Consideration. This payment is being vigorously pursued by Inveresk and on 15 February 2008 and again on 29 August 2008 in the Court of Session in Edinburgh two different senior commercial judges opined strongly in the favour of Inveresk. Tullis Russell Papermakers Ltd have declined to accept these judgements and therefore the matter is currently with the Court of Appeal in Edinburgh for resolution. Your Board of Directors together with their legal advisers are confident that this Additional Consideration is properly due to Inveresk and accordingly believe that it is appropriate to recognise the amount of £1,009,000 in the Interim Results for 2008, being the minimum Additional Consideration due (£909,000) and estimated related interest thereon (£100,000) up to 30 June 2008.

4. Assets classified as held for sale

The following assets are held for sale which relate entirely to the discontinued operations of the fine papers division and the “Gemini” paperboard business which were both closed prior to 1 January 2006.

	Interim 30 June 2008 £'000	Interim 30 June 2007 £'000	Year ended 31 December 2007 £'000
Plant, machinery and equipment	-	123	-
Land and buildings	5,990	5,991	5,990
Total assets held for sale	5,990	6,114	5,990

During the six months ended 30 June 2008, sales of assets relating to discontinued operations were £nil (6 months ended 30 June 2007: £10,965,000, 12 months ended 31 December 2007: £11,225,000) with no subsequent gain or loss to the income statement for the six months ended 30 June 2008 (6 months ended 30 June 2007: gain £4,948,000, 31 December 2007: gain £5,085,000).

5. Earnings per share

	6 months ended 30 June 2008 £'000	6 months ended 30 June 2007 £'000	12 months ended 31 December 2007 £'000	6 months ended 30 June 2008 pence per share	6 months ended 30 June 2007 pence per share	12 months ended 31 December 2007 pence per share
Basic – continuing operations	(1,055)	(856)	(2,313)	(0.8)	(0.6)	(1.7)
Basic – discontinued operations	617	4,168	4,054	0.5	3.1	3.0
Basic – Total	(438)	3,312	1,741	(0.3)	2.5	1.3
Diluted – continuing operations	(1,055)	(856)	(2,313)	(0.8)	(0.6)	(1.7)
Diluted – discontinued operations	617	4,168	4,054	0.5	3.0	3.0
Diluted – Total	(438)	3,312	1,741	(0.3)	2.4	1.3

Earnings per share are calculated for the issued shares excluding those registered in the name of The Inveresk ESOP Trustee Company Limited and those held as Treasury shares.

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

	6 months ended 30 June 2008 Number of Shares (000s)	6 months ended 30 June 2007 Number of Shares (000s)	12 months ended 31 December 2007 Number of Shares (000s)
Average of shares in issue during the financial period	135,055	135,055	135,055
Adjustment for the dilutive effect of employee and director share options	-	1,562	-
Average of shares in issue during the financial period diluted	135,055	136,617	135,055

6. Pensions

The amounts included in respect of the pension asset movement reflects the additional contributions paid into the scheme by the Company in the period together with the effect of the net interest charge and service cost. An updated IAS 19 calculation will be obtained from the actuary at the year end at which time the actuarial gains and losses movements for the full year will be recognised.

7. Post Balance Sheet Events

On 1 July 2008 the Group announced the closure of its Pre-impregnated Paper (PIP) business at its St Cuthberts Mill in Somerset and its withdrawal from the décor paper market. This decision will result in the redundancy of approximately 50 of the workforce at an estimated cost of slightly over £500,000 and will largely stem the operating losses which have been experienced by St Cuthberts Mill for some time. Revenue associated with the PIP business was £10,196,000 for the year ended 31 December 2007.

The Group has also signed a Letter of Intent to enter into a Joint Venture agreement with a Chinese paper-making company to manufacture PIP in China. This will involve the relocation of the PM1 machine at St Cuthberts on which PIP was manufactured, and this machine together with the Group’s technical expertise and customer base will represent the value of the Group’s equity investment in the joint venture.