



# Inveresk PLC

## Annual Report and Accounts

### 2007

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# Highlights 2007

Inveresk presents its Annual Results for the 12 months ended 31 December 2007.

- Profits attributable to shareholders of £1.741M compared to losses of £3.016M for the 12 months to 31 December 2006.
- During the year land, buildings and related equipment at Carrongrove were sold for a consideration exceeding £11.0M.
- Operating losses of £2.357M were recorded as compared to £2.596M in 2006. Margins remained under pressure throughout the period notwithstanding a volume increase of 8% in respect of tonnage sold.
- Shareholders' funds increased to £10.611M as compared to £7.760M as at 31 December 2006. These figures are stated before recognition of any surplus which may arise from the future disposal of the Company's land assets.
- Net debt has fallen by 54% to £5.873M compared to £12.753M as at 31 December 2006.
- R&D has resulted in two new product lines being prepared for market commercialisation both of which are the subject of world-wide patent applications.
- Successful penetration of the Asian markets for our internationally renowned artist

papers brands with sales into new markets including China and Korea, and revitalised markets in Japan, India, Hong Kong and Singapore.

- Continued investigation of options available so as to realign our paper making activities with our chosen alternative strategy of enhancing shareholder value through the development of our land portfolio.

## Post Balance Sheet Events

- On 1 July 2008 the closure of PM1 at St Cuthberts was announced, to stem operating losses, in favour of a potential Joint Venture with Chinese paper manufacturers.
- Successful renegotiation of banking facilities with HBOS following the recapitalisation of the bank together with support from a number of existing shareholders.
- Independent valuations carried out in April and October 2008 over the Company's freehold brownfield sites in the range of £22M to £25M subject to receipt of appropriate planning consents.

# Chairman's Statement

## Overview

The financial year to 31 December 2007 again has seen a continuation of the theme to which I have referred in my last three annual reports, namely, a European paper industry facing considerable challenges with pressure on profit margins and steeply rising costs. In all sectors of the paper industry, whether in the UK or Continental Europe, the principal talking points concern retention of market share through margin erosion, increases in raw material costs and the massive impact of spiraling energy costs in an industry where continuous production is so heavily dependent upon the use of gas, water, electricity and transportation.

Whilst no one could have anticipated the extent to which energy costs have soared during 2007 and most of 2008, shareholders will recognise that your Board understood back in June 2005 that the prospects for the industry as a whole were not good and that rather than follow our competitors into large scale investment programmes we realised the need for consolidation within the industry by selling our highly respected international brand "Gemini", formerly produced at the Carrongrove Mill in Stirlingshire, together with the plant, equipment, land and buildings for a little under £25M, most of which was used to significantly reduce bank indebtedness. In addition to this we retain a carried interest in the future development prospects at Carrongrove, as well as additional consideration which is now long overdue to be paid by Tullis Russell Papermakers Ltd who acquired the Gemini brand and which is the subject of Court proceedings to which I refer below.

Our paper activities at the end of 2007 were confined to the core specialist operations at St Cuthberts Mill in Somerset where we produced pre-impregnated foil based papers (PIP) for the furniture and décor markets, as well as our respected international brands of artist and inkjet papers to which we refer in our Operating and Financial Review. Over many years this mill has suffered from a lack of financial investment on new plant and equipment whilst those with whom we compete have invested heavily. Ironically and most disturbingly as greater capacity has emerged in Europe demand has fallen sharply and margins on PIP have declined by up to 50% over a three year period. Whereas traditionally this highly technical niche sector within the paper industry has justified high and sustainable margins for many years we were increasingly finding that orders were the subject of "spot" market tenders as prices became commoditised and product differentiation went unrewarded.

Your Board had chosen not to invest in such a tightly configured specialised niche market where further consolidation is inevitable and where increasingly it is not possible to obtain satisfactory levels of return on capital. As an alternative strategy your Board had chosen to engage in widespread discussion with potential international partners who had under-utilised plant and equipment as well as ambition to grow their presence in this market where product innovation as well as technical expertise is sought after by discerning customers. I refer further to the outcome of these discussions under Notes 1 and 4 of "Post Balance Sheet Events".

As all shareholders know we are living in very unusual and difficult times which have resulted in your Board taking decisive action in a number of areas which I refer to later in my statement under "Post Balance Sheet Events".

## Results

For the first time our annual results are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ("adopted IFRSs"). The date of transition to the adopted IFRSs is 1 January 2006 and accordingly comparative figures for the year ended 31 December 2006 have been restated under adopted IFRSs. Explanations of the effects of the transition are included in the accompanying notes to the Financial Statements.

The operating results for the year ended 31 December 2007 continue to disappoint with turnover of £12.951M (2006 - £13.304M), a decline of 2.7% notwithstanding an increase of 8.0% in the number of tonnes sold in the year. Operating losses were £2.357M compared to losses of £2.596M in 2006.

As a result of the realisations arising from the sale of land, buildings, plant and equipment at Carrongrove, profits from discontinued operations of £4.054M were recorded (2006 - loss £1.296M) resulting in a profit after discontinued operations and income tax for the year of £1.741M attributable to shareholders compared to a loss of £3.016M in 2006.

The Consolidated Balance Sheet shows improved shareholders' funds of £10.611M compared to £7.760M in 2006 before recognising any surplus which may arise from the disposal of the Company's land portfolio

which it is anticipated will be developed at some stage in the future.

Net debt has fallen by 54% to £5.873M as compared to £12.753M as at 31 December 2006. It remains one of your Board's foremost business objectives to eliminate all debt from the Group's balance sheet.

## Asset Realisation Programme

All plant and equipment at the Carrongrove site has been sold to a range of buyers. As regards the Company's other plant and equipment, there are a number of strategic options under consideration which would allow certain products to be produced in lower cost countries now that operating costs in the United Kingdom have risen to an all time high thereby having a negative effect on the Company's ability to be competitive.

## Land for Future Development

### Inverkeithing

Shareholders have been aware for some considerable time that we have chosen to opt for an alternative strategy which exploits the intrinsic value of our brownfield sites in preference to remaining as a long term player in the manufacture of paper. The 18 acre site on the edge of the River Forth at Inverkeithing opposite Edinburgh offers development potential on a large scale. The formation of a new Government following the elections in Scotland has served to delay Fife Council's ambitious plans for the regeneration of the entire area surrounding Inverkeithing Bay. Together with our advisers we continue to investigate alternative uses

for this land including commercial and residential opportunities which will progress to detailed planning applications in due course. We continue to work with Fife Council in the expectation that our land will play a pivotal role in the anticipated transformation of the entrance to the Kingdom of Fife with consequential improvements to the local community and environment. I refer below under Note 2 of "Post Balance Sheet Events" to the underlying value of both this and our St Cuthberts Mill site.

### St Cuthberts, Wells

This site extends to approximately 40 acres and is located only a few short miles to the south of the charming City of Wells in Somerset. As in the case of Inverkeithing our advisers have been investigating with the Local Authority ways and means of developing alternative uses for much of the land which is surplus to our every day requirements.

Notwithstanding the recent sharp decline in the UK housing market and the hopefully short-term problems facing house builders there appears to be a shortage of quality mixed use development in the area and as in the case with Falkirk District, in which our Carrongrove site was located, positive dialogue has been entered into with Mendip Council in Somerset regarding the medium to longer term development of this land as and when it becomes available and we cease paper manufacture on the site. Creative schemes are under critical review and will be studied in parallel with our commercial discussions as to the short term future of our two manufacturing businesses.

### Additional Consideration

Shareholders will recall that the sale of the Gemini brand back in 2005 together with the provision of services for £13M entitled your Company to additional consideration over the subsequent 12 month period commencing on 8 November 2005 in respect of the amount of tonnage of Gemini ordered, produced and sold by Tullis Russell Papermakers Ltd as acquirers of the brand. Regrettably having certified the final tonnage figures given by them to Inveresk over each of the twelve months, Tullis

Russell defaulted when required to make payment of the consideration which fell due and this matter has been referred to the Court of Session in Edinburgh for resolution. On 15 February 2008 the Court ruled strongly in favour of Inveresk which decision Tullis Russell declined to accept. On 3 June 2008 the matter reached the Court of Appeal where Tullis Russell complained that the Judge had gone too far in his judgement and as a consequence the case was referred by the Appeal Court for a second time to the Lower Court before another senior commercial Judge whose judgement was handed down on 29 August 2008 in similar robust terms as the first Judge, again awarding the case strongly to Inveresk. On appeal again by Tullis Russell, this matter was referred back to the Court of Appeal on 18/19 November 2008, the outcome of which remains unknown at this time. The amount of consideration due including interest and costs will exceed £1M and has not been taken to income at this time pending a successful outcome in the Court of Appeal. Your Board of Directors together with their legal advisers remain confident that this matter will be resolved in Inveresk's favour in due course.

### R & D and the Environment

Research and Development has always been one of the cornerstones of our past success at St Cuthberts and notwithstanding the lack of physical investment in plant and equipment we have continued to invest in technical innovation. For us, R&D is not only about solving challenges referred to us by customers but also the development of new products which set us aside from others engaged in our industry through our technical ability to innovate for which we enjoy an enviable reputation. In this regard we have at this time two new specific product lines which in their own way could make a significant impact on the future printing techniques required to manufacture end products on a global scale. Inveresk has chosen to patent each of these products where targeted market success is likely to produce long term commercial benefits to both our valued customers and ourselves through the provision of licence and royalty agreements.

So far as the environment is concerned we strive to fulfil local regulatory requirements which have become increasingly onerous and which ultimately affect our competitiveness in the market. We continue to:-

- replace any hazardous substances or chemicals in products as far as is technically feasible and financially viable.
- minimise any environmental impact in the manufacturing process.
- minimise the volume of waste and waste products by whatever means.
- work consistently and conscientiously in-house with feasible levels of training, information and discussion in order to stimulate the development of expertise in environmental matters as well as health and safety issues.

### **Pensions**

During the year under review both our pension schemes performed well in a market which was dominated by volatility in global stock and financial markets worldwide. We continue to work with actuarial experts in an effort to maximise investment returns whilst also seeking ways and means of reducing our schemes' long term liabilities. The pensions industry appears to remain in disarray and is severely hampered by Government interference and accounting rules which are designed to confuse even those with particular expertise in the subject.

### **Prospects at St Cuthberts**

Sales of our artist and inkjet papers are performing to expectation given the state of the market and the economic downturn which currently prevails. This resilient business has seen good stability in terms of sales prices and volumes are increasing mainly in the Far East. The North American market remains depressed. Our widely respected brands are now sold in Japan, China, India, Korea, Hong Kong and Singapore in addition to the USA and UK justifying our decision to support a sales and marketing initiative bespoke to the region.

Clearly the downturn in most economies gives cause for concern. We are continuing to explore all possible avenues which will allow us to pursue our alternative strategy which lies in the development of our real estate portfolio and which represents best value to shareholders.

### **Dividend**

Your Board is unable to recommend the payment of a dividend given present market conditions. At the same time given the dramatic effects of the worldwide credit crunch and financial crisis we intend to concentrate on the elimination of debt as a prime business objective.

### **Post Balance Sheet Events.**

A number of events have taken place after the balance sheet date to which I would draw shareholders' attention:

1. The Company remained in active negotiation during the second quarter of 2008 regarding the sale of those business assets which relate to the pre-impregnated foil based papers business (PIP) for the furniture and décor markets manufactured in the St Cuthberts Mill. There are very few worldwide competitors with expertise in this field and the logic behind achieving greater capacity utilisation through merging with a larger competitor was highly persuasive as indeed it was in 2005 when we sold our SBS coated board assets at Carrongrove Mill to Tullis Russell Papermakers Ltd. Regrettably, however, weak demand within this niche sector and falling sales prices meant that in late May this transaction collapsed against declining fortunes for the décor sector as a whole and a weak financial performance by the prospective buyer.
2. At the same time against a background of the lowest bank debt within Inveresk for a decade and real estate assets valued at between £22M and £25M (based on assumed outline planning consents for these brownfield developments), our bankers HBOS admitted in mid June 2008 that they were not in a financial position to increase

our banking facilities in line with the cash flow requirements of the business. For this reason the directors took the precautionary and necessary step of suspending the Company's shares on the London Stock Exchange in order that action could be taken to address the future funding of the business amidst the credit crunch and worsening banking crisis.

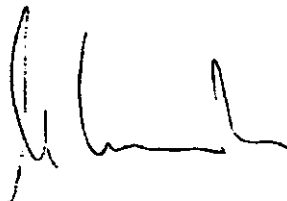
3. The status of HBOS became increasingly clear during the summer of 2008 and by September emergency merger negotiations with Lloyds TSB, allied to partial nationalisation courtesy of Government intervention, have provided HBOS with the means with which to treat with its customer base amongst whom we rank. With the assistance of a small number of existing shareholders who have agreed to provide the Company with a short term convertible loan of £1M, the renewal of the existing £8.1M facility previously agreed with HBOS to 31 December 2009 and thereafter a term loan facility of £4.5M to 31 December 2010, we are now in a position to sign off our Annual Report and Accounts and present these to shareholders for approval albeit much later than we had originally intended. We also anticipate the lifting of the share suspension by the London Stock Exchange as soon as the Report and Accounts for 2007 and the 2008 Interim Results have been released to shareholders.

4. On 1 July 2008 your Directors opted to close the pre-impregnated paper (PIP) business in order to stem the losses generated by our PM1 machine. A Letter of Intent has been signed with a view to entering into a Joint Venture agreement with a Chinese paper manufacturer using this machine together with the Group's technical expertise and our knowledge/relationships with the European customer base as the basis for our equity investment in the Joint Venture.

The Directors are very aware that the current economic climate is difficult and uncertain. While we have several options for the realisation of assets within our business we have looked very closely at future cash flows and their sensitivities. We have always managed our cash resources tightly and we recognise the critical need to do so in the current economic climate to ensure that the Company lives within what we believe to be adequate financial resources going forward.

## Employees

The Company is heavily dependent upon its employees to maintain the integrity of its manufacturing capability and to the achievement of commercial targets as set by the Board. We are greatly indebted to our loyal employees who continue to operate in the business in less than ideal circumstances and who face differing challenges on a day to day basis. Change is never easy to implement and the Board would like to express its gratitude to all employees whose efforts are much appreciated. Without their dedication and commitment it would be most difficult to operate in the current business environment.



**Jan Bernander**  
Chairman

19 December 2008

# Operating and Financial Review

## Operating Review

During 2007 St Cuthberts had to deal with a number of issues that were impacting on the mill's ability to get back into profit. The furniture paper business on our fourdrinier machine (PM1) was under severe pressure on prices due to increased capacity in the marketplace and the higher cost of energy and raw materials. Our customers were also finding life to be very difficult and this resulted in pressure on the mill to reduce sales prices. At times we found ourselves participating in 'dutch auctions' for some of the larger orders. Margins were always under pressure and we were forced to balance the need to keep the mill running with the sales price we were able to achieve in the marketplace.

Many of our raw material suppliers were trying to get prices up and where practicable we switched to producers willing to sell at lower prices in order to keep our costs under control.

Woodpulp prices continued to increase throughout the year although there was some benefit from changes in exchange rates, which partly mitigated the higher costs. Most raw materials increased in price due to higher oil prices which also impacted on transport costs. Energy costs continued to increase in the latter part of the year.

The increasing cost of producing our speciality products forced us to increase prices to many customers at the end of the year. This improved the margins we were achieving although we still saw some customers asking us to quote for each order.

Despite the competitive pressures we continued to attract sufficient business for furniture grades to keep the PM1 machine

running for most of the year. This resulted in a significant increase in tonnage sales year on year. We were also talking to a number of potential new customers who liked the quality of our products and were starting to give us good orders. We believe that the volume of business we were attracting was due to our willingness to tailor products to customers' requirements and to our ability to respond quickly to these requirements.

Production efficiencies on our PM1 machine were lower at the start of the year and it took some time to get the efficiencies back to where they should be. However by the end of 2007 the mill was achieving production efficiencies back at the best levels we had achieved in the past. This enabled us to satisfy demand and increase sales despite having fewer employees. We continued to work on increasing product run lengths and this helped the improvement in efficiencies.

The addition of new niche added value products to our portfolio was one of our major targets and we successfully developed two new resin impregnated products ready for commercialisation.

However, all management's efforts to return the furniture paper business to profit have been to no avail in the first six months of 2008 as the market for our PIP products in Europe have become even more commoditised and energy, raw material and transport costs have escalated out of control. Consequently, the Board reluctantly took the decision that Inveresk could no longer support the operating losses which had been incurred for quite some time in this business and on 1 July 2008 it announced the closure of St Cuthberts PM1 machine.



The artist paper business on our mould machine also felt the pressure in the marketplace and found order intake falling slightly month on month. At the same time we were beginning to see significant increases in the price of cotton and the special woodpulp used to make these products. Demand in the Far East has pushed prices for these commodities significantly higher and we have little choice but to pay the price if we are to maintain the high quality of the products we manufacture. Inevitably this has had to result in sales price increases to our customers in 2008.

We have also launched our new Somerset Photo inkjet paper into the marketplace receiving good reviews in the press. The market for these high quality ink jet products has attracted a lot of interest from other manufacturers and we have seen a large number of new entrants trying to take a share of the business. This has made it more difficult to capture market share because of the wide range of products available. Fortunately our reputation as the producer of the Somerset Enhanced range is helping us to get exposure. We are continuing to promote this new range and are starting to see some sales growth.

Artist paper sales fell in 2007 and we have been putting in effort to successfully reverse this trend in 2008. We are having success in developing sales in the Far East, which is a market with significant potential for us. We have gained a number of new distributors and are seeing sales grow month on month. We have also been targeting Eastern Europe and are seeing sales develop in these areas as we find appropriate distribution channels.

## Financial Review

The results for the year ended 31 December 2007 are reviewed fully in the Chairman's Statement.

These are the first annual financial statements to be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ("adopted IFRSs"). The date of transition to the adopted IFRSs is 1 January 2006 and the results for the year ended 31 December 2006 have been restated accordingly. Full details on the accounting policies and effects of transition to the adopted IFRSs can be found in the notes to the accounts.

The Group operates two defined benefit pension schemes which are both closed to new entrants; the Inveresk Group Staff Pension Plan ("the Plan") and the Weir Group Pension Scheme ("the Scheme"). The net position of the two schemes has moved from being a £1.381M net pension liability at 31 December 2006 to a net pension surplus of £0.846M at 31 December 2007. The recoverable surplus of the Plan has been restricted by £7.305M (2006: £5.724M) and the recoverable surplus of the Scheme has been restricted by £0.28M (2006: £nil).

As a result of adopting IAS12 "Income Taxes", deferred tax has been calculated on all temporary differences with deferred tax assets and deferred tax liabilities disclosed separately in the Balance Sheet. At the end of 2007, the directors do not consider it appropriate to recognise a net deferred tax asset relating to tax losses, therefore, the net deferred tax in the Balance Sheet as at 31 December 2007 is stated as £nil (2006: £nil).

Since the Group both buys and sells in US \$ and Euros it has a partial natural hedge against currency fluctuations. Due to a low exposure to currency fluctuations no new forward currency contracts were entered into during the year and there were no outstanding forward currency contracts existing as at 31 December 2007.

There were no share options granted to directors or employees during the year ended 31 December 2007.

# Advisors and Bankers

<b>Actuaries</b>	<b>Jardine Lloyd Thompson Benefit Solutions Ltd</b> St James's House 7 Charlotte Street Manchester M1 4DZ	<b>Property Advisors</b>	<b>Keppie</b> 160 West Regent Street Glasgow G2 4RL
	<b>Punter Southall &amp; Co</b> Albion Fishponds Road Wokingham Berkshire RG41 2QE		<b>Ryden</b> 46 Castle Street Edinburgh EH2 3BN
<b>Auditors</b>	<b>KPMG Audit Plc</b> Saltire Court 20 Castle Terrace Edinburgh EH1 2EG	<b>Registrars</b>	<b>Computershare Investor Services PLC</b> PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
		<b>Solicitors</b>	<b>Jones Day</b> 21 Tudor Street London EC4Y 0DJ
<b>Bankers</b>	<b>Bank of Scotland</b> Corporate Banking 123 St. Vincent Street Glasgow G2 5EA		<b>Addleshaw Goddard</b> 150 Aldersgate Street London EC1A 4EJ
<b>Brokers</b>	<b>KBC Peel Hunt Ltd</b> 111 Old Broad Street London EC2N 1PH		<b>McGrigors LLP</b> Princes Exchange 1 Earl Grey Street Edinburgh EH3 9AQ
<b>Insurance Brokers</b>	<b>Marsh UK Ltd</b> Orchard Brae House 30 Queensferry Road Edinburgh EH4 2HS		

# Board of Directors

## **1. Jan Bernander**

### **// Non-Executive Chairman**

Jan Bernander (65) was appointed to the Board in October 2002.

He is a solicitor by profession having gained valuable corporate experience with multi national Swedish industrial groups before embarking on an entrepreneurial career as Chairman of Slip Naxos AB. He is currently Chairman of Björnekulla Frukthindustrier AB and a member of the Board of Värmlandsmetanol AB in Sweden. He is based in Singapore.

## **2. Alan Walker**

### **// Chief Executive**

Alan Walker (58) was appointed to the Board in October 2002.

He qualified with KPMG Glasgow as a member of The Institute of Chartered Accountants of Scotland in 1974 and following a period of years with Price Waterhouse in Paris has been engaged in industry and commerce for over 20 years, specialising in corporate mergers and acquisitions on behalf of AB Wilh Becker of Sweden and other Swedish multinationals in the UK, continental Europe and North America where he also attended The Harvard Business School. He is Executive Chairman of SWP Group plc and holds a number of non-executive directorships in medium sized industrial and commercial businesses, including Healthcare Locums plc, where he is the non-executive Chairman.

**3. Gordon Thomson**  
**// Finance Director**

Gordon Thomson (61) was appointed to the Board in December 2002.

He is experienced in business turnarounds and in managing companies through periods of rapid growth or intense change. He was formerly Group Finance Director of Castle View International Holdings Limited, a major support services company, and prior to this operated at board level in a number of manufacturing companies, both public and private. He is a member of The Institute of Chartered Accountants of Scotland where previously he also held a four year tenure as Deputy Chief Executive.

**4. Stephen Mason**  
**// Non-Executive Director**

Stephen Mason (62) was appointed to the Board in October 2004.

He joined the merchanting sector of the paper industry in 1969 and until recently held the position as Chairman of the UK's largest merchanting group, Paperlinx, with annual sales of over one million tonnes. In addition to general management his experience has involved him in acquisitions and mergers, whilst his sales and marketing background also adds to the balance of skills within the Board.

**5. Kieron Green**  
**// Executive Director, St Cuthberts Mill**

Kieron Green (60) was appointed to the Board in 1998 having been the General Manager of the St Cuthberts Mill since 1997.

He originally joined the industry as a Graduate Trainee with Wiggins Teape Research and Development where he specialised in new product and process development. He then spent several years as a Development Manager before joining Inveresk in 1982.

# Directors' Report

The Directors present their report and the audited financial statements for the financial year ended 31 December 2007.

## Principal Activity

The principal activity of the Group is the production of specialist papers for a variety of end uses. A review of the Group's performance for the financial year ended 31 December 2007 is contained in the Chairman's Statement on pages 2 to 6 and the Operating and Financial Review on pages 7 to 8.

## Business Review

The information that fulfils the requirements of the Business Review can be found in the Company's Operating and Financial Review on pages 7 to 8 and in the Chairman's Statement on pages 2 to 6, which cover the review of the development and performance of the business and the principal risks and uncertainties which the business faces, and which the Directors believe give a balanced and comprehensive review of the business.

In their review of their paper businesses the Directors monitor on a very regular basis the tonnage of orders received to ensure the maximum possible machine capacity utilisation; the average order size, production down time and broke levels to ensure production efficiencies are optimised; and the average selling price received per tonne.

The Company's policy with regard to environmental matters is dealt with on pages 4 to 5 in the Chairman's Statement.

## Purchase of Ordinary Shares

The Company has shareholders' authority for the purchase of 14,380,475 of the Company's own shares (representing 10% of the issued share capital).

## Dividends

The Directors do not recommend any dividend.

## Charitable and Political Donations

The Group made charitable donations of £1,114 in the United Kingdom. There were no political donations.

## Employees

The Company's policy for training and career development is to give full consideration for all vacancies and opportunities to any suitable person, including disabled persons. Employees' representatives meet management regularly to discuss matters affecting employees.

## Suppliers' Payment Policy

The Company does not follow any code or standard but agrees appropriate terms and conditions for its transactions with suppliers. At 31 December 2007 trade creditors represented approximately 54 days' purchases.

## Directors and Directors' Interests

Details of the current Directors appear on pages 10 and 11.

The following Directors have served throughout the year:

Mr J G Bernander  
Mr J A F Walker  
Mr G M Thomson  
Mr J S Mason  
Mr K P Green

Mr D N Doorbar resigned from the Board on 22 May 2007.

The interest of each Director in the ordinary shares of the Company and in options held under the Company's share option schemes are shown on pages 36 to 37.

## Substantial Shareholdings

As at the date of this report, the Company had notification of the following interests in 3% or more of its issued ordinary shares:

Shareholder	Number of Shares Notified	Percentage of Current Issued Share Capital
Roba Securities Ltd	12,850,000	8.94%
Jan Gunnar Bernander	12,336,730	8.58%
Chase Nominees Limited	10,642,003	7.40%
HSBC Global Custody Nominee (UK) Limited	7,250,000	5.04%
Gordon Bell	7,000,000	4.87%
Rock (Nominees) Limited	4,875,500	3.39%

### Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements

comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Going Concern

The Directors have a reasonable expectation that the Group has adequate bank facilities in place to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements (see note 1 to the Financial Statements).

### Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

A resolution under Section 384 of the Companies Act 1985 to re-appoint KPMG Audit Plc as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board.



**DJ Pett**  
Secretary  
Inveresk PLC

19 December 2008

**Registered Office**  
Steuart Road  
Bridge of Allan  
Stirlingshire  
FK9 4 JX

# Independent Auditors' Report

to the members of Inveresk PLC

We have audited the Group and Parent Company financial statements ("the financial statements") of Inveresk PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 13.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Operating and Financial Review and the Chairman's Statement that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud

or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Edinburgh

19 December 2008



# Consolidated Income Statement


for the year ended 31 December 2007

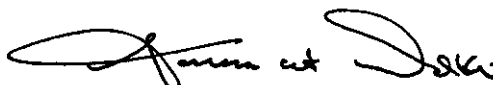
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	Note	2007 £'000	2006 £'000
<b>Continuing operations</b>			
Revenue	2	12,951	13,304
Cost of sales		(12,474)	(12,925)
<b>Gross profit</b>		<b>477</b>	<b>379</b>
Distribution expenses		(787)	(856)
Administrative expenses - before restructuring costs		(1,924)	(1,525)
Administrative expenses - restructuring costs	6	(123)	(594)
Total administrative expenses		(2,047)	(2,119)
<b>Loss from operating activities</b>		<b>(2,357)</b>	<b>(2,596)</b>
Finance income	4	2,067	1,657
Finance expenses	4	(1,893)	(1,550)
<b>Net finance income</b>		<b>174</b>	<b>107</b>
<b>Loss before income tax</b>		<b>(2,183)</b>	<b>(2,489)</b>
Income tax (charge)/credit	14	(130)	769
<b>Loss from continuing operations</b>		<b>(2,313)</b>	<b>(1,720)</b>
<b>Discontinued operations</b>			
Profit/(loss) from discontinued operations, net of income tax	3	4,054	(1,296)
<b>Profit/(loss) for the year</b>	<b>22</b>	<b>1,741</b>	<b>(3,016)</b>
<b>Attributable to:</b>			
Equity holders of the company		1,741	(3,016)
<b>From continuing and discontinued operations</b>			
Basic earnings/(loss) per share	9	13p	(2.2)p
Diluted earnings/(loss) per share	9	13p	(2.2)p
<b>From continuing operations</b>			
Basic loss per share	9	(1.7)p	(1.3)p
Diluted loss per share	9	(1.7)p	(1.3)p

	Note	2007 £'000	2006 £'000
<b>Assets</b>			
Property, plant and equipment	10	7,069	7,583
Deferred tax asset	14	–	367
<b>Total non-current assets</b>		<b>7,069</b>	<b>7,950</b>
Inventories	15	3,355	2,619
Trade and other receivables	16	2,566	3,231
Employee benefits - assets	24	846	1,410
Cash and cash equivalents		1	4
Assets classified as held for sale	11	5,990	12,130
<b>Total current assets</b>		<b>12,758</b>	<b>19,394</b>
<b>Total assets</b>		<b>19,827</b>	<b>27,344</b>
<b>Equity</b>			
Share capital	21	1,438	1,438
Retained earnings	22	9,173	6,322
<b>Total equity attributable to equity holders of the company</b>		<b>10,611</b>	<b>7,760</b>
<b>Liabilities</b>			
Loans and borrowings	18	3,077	4,308
Employee benefits - obligations	24	–	2,791
Deferred tax liabilities	14	–	367
<b>Total non-current liabilities</b>		<b>3,077</b>	<b>7,466</b>
Bank overdraft	19	1,566	7,218
Loans and borrowings	18	1,231	1,231
Trade and other payables	17	3,075	3,229
Provisions	20	267	440
<b>Total current liabilities</b>		<b>6,139</b>	<b>12,118</b>
<b>Total liabilities</b>		<b>9,216</b>	<b>19,584</b>
<b>Total equity and liabilities</b>		<b>19,827</b>	<b>27,344</b>

These financial statements were approved on 19 December 2008 and signed on its behalf by:

  
G. M. Thomson  
Director

  
J.A.F. Walker  
Director

# Consolidated Statement of Cash Flows

for the year ended 31 December 2007

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	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>		
Profit/(loss) for the year	1,741	(3,016)
Adjustments for :		
Depreciation	536	715
Net finance expense	457	644
Gain on sale of assets	(5,047)	(100)
Equity settled share based payment transactions	-	23
Amortisation of government grants	-	(2)
Income tax credit	(237)	(1,147)
Pension service charge net of contributions	(578)	(569)
Change in inventories	(736)	370
Change in trade and other receivables	665	2,231
Change in trade and other payables	(81)	(1,693)
Change in provisions	(173)	(135)
Interest paid	(845)	(726)
Interest received	13	10
<b>Net cash used in operating activities</b>	<b>(4,285)</b>	<b>(3,395)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of assets	11,225	126
Acquisition of property, plant and equipment	(60)	(39)
<b>Net cash from investing activities</b>	<b>11,165</b>	<b>87</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(1,231)	(1,230)
<b>Net cash used in financing activities</b>	<b>(1,231)</b>	<b>(1,230)</b>
Net increase/(decrease) in cash and cash equivalents	5,649	(4,538)
Cash and cash equivalents at 1 January	(7,214)	(2,676)
<b>Cash and cash equivalents at 31 December</b>	<b>(1,565)</b>	<b>(7,214)</b>
<b>Reconciliation of cash and cash equivalents</b>		
	2007 £'000	2006 £'000
Cash and cash equivalents at 31 December	(1,565)	(7,214)
less, bank overdraft at 31 December	1,566	7,218
Cash in the balance sheet at 31 December	1	4

# Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2007

	2007 £'000	2006 £'000
Foreign exchange translation differences for foreign operations	–	(1)
Retirement benefit schemes actuarial gains/(losses)	1,347	(449)
Deferred tax on retirement benefit schemes	(237)	-
<b>Net income and expense recognised directly in equity</b>	<b>1,110</b>	<b>(450)</b>
Profit/(loss) for the year	1,741	(3,016)
<b>Total recognised income and expense for the year</b>	<b>2,851</b>	<b>(3,466)</b>
<b>Attributable to:</b>		
Equity holders of the company	2,851	(3,466)


# Company Balance Sheet

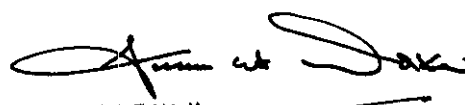
as at 31 December 2007

**INVERESK PLC**  
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	Note	2007 £'000	2006 £'000
<b>Assets</b>			
Property, plant and equipment	10	7,069	7,583
Investments	12	6,928	6,928
Deferred tax asset	14	-	367
<b>Total non-current assets</b>		<b>13,997</b>	<b>14,878</b>
Inventories	15	3,355	2,619
Trade and other receivables	16	2,565	3,230
Employee benefits - assets	24	846	1,410
Cash and cash equivalents		1	4
Assets classified as held for sale	11	5,990	12,130
<b>Total current assets</b>		<b>12,757</b>	<b>19,393</b>
<b>Total assets</b>		<b>26,754</b>	<b>34,271</b>
<b>Equity</b>			
Share capital	21	1,438	1,438
Retained earnings	22	9,174	6,321
<b>Total equity attributable to equity holders of the company</b>		<b>10,612</b>	<b>7,759</b>
<b>Liabilities</b>			
Loans and borrowings	18	3,077	4,308
Employee benefits - obligations	24	-	2,791
Deferred tax liabilities	14	-	367
<b>Total non-current liabilities</b>		<b>3,077</b>	<b>7,466</b>
Bank overdraft	19	1,566	7,219
Loans and borrowings	18	1,231	1,231
Trade and other payables	17	10,001	10,156
Provisions	20	267	440
<b>Total current liabilities</b>		<b>13,065</b>	<b>19,046</b>
<b>Total liabilities</b>		<b>16,142</b>	<b>26,512</b>
<b>Total equity and liabilities</b>		<b>26,754</b>	<b>34,271</b>

These financial statements were approved on 19 December 2008 and signed on its behalf by:

  
G. M. Thomson  
Director

  
J.A.F. Walker  
Director

# Company Statement of Cash Flows

for the year ended 31 December 2007

	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>		
Profit/(loss) for the year	1,743	(3,008)
Adjustments for:		
Depreciation	536	715
Net finance expense	457	644
Gain on sale of assets	(5,047)	(100)
Equity settled share based payment transactions	-	23
Amortisation of government grants	-	(2)
Income tax credit	(237)	(1,147)
Pension service charge net of contributions	(578)	(569)
Change in inventories	(736)	370
Change in trade and other receivables	665	2,230
Change in trade and other payables	(82)	(1,687)
Change in provisions	(173)	(135)
Interest paid	(845)	(726)
Interest received	13	10
<b>Net cash used in operating activities</b>	<b>(4,284)</b>	<b>(3,382)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of assets	11,225	126
Acquisition of property, plant and equipment	(60)	(39)
<b>Net cash from investing activities</b>	<b>11,165</b>	<b>87</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(1,231)	(1,230)
<b>Net cash used in financing activities</b>	<b>(1,231)</b>	<b>(1,230)</b>
Net increase/(decrease) in cash and cash equivalents	5,650	(4,525)
Cash and cash equivalents at 1 January	(7,215)	(2,690)
<b>Cash and cash equivalents at 31 December</b>	<b>(1,565)</b>	<b>(7,215)</b>
<b>Reconciliation of cash and cash equivalents</b>		
	2007 £'000	2006 £'000
Cash and cash equivalents at 31 December	(1,565)	(7,215)
less, bank overdraft at 31 December	1,566	7,219
Cash in the balance sheet at 31 December	1	4

# Company Statement of Recognised Income and Expense

for the year ended 31 December 2007

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	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Defined retirement benefit schemes actuarial gains/(losses)	<b>1,347</b>	(449)
Deferred tax on retirement benefit schemes	<b>(237)</b>	–
<b>Net income and expense recognised directly in equity</b>	<b>1,110</b>	(449)
Profit/(loss) for the year	<b>1,743</b>	(3,008)
<b>Total recognised income and expense for the year</b>	<b>2,853</b>	(3,457)
<b>Attributable to:</b>		
Equity holders of the company	<b>2,853</b>	(3,457)

## **1. Accounting policies**

Inveresk PLC (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements for the year ended 31 December 2007 comprise those of the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group. The financial statements were approved for issue by the Board of Directors on 19 December 2008.

### **1.1 Statement of compliance**

Both the parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements. These are the first financial statements of the Group and the Company prepared in accordance with adopted IFRSs and IFRS 1 has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group and the Company is provided in note 25. This note includes reconciliations of equity and profit or loss for comparative periods reported under UK GAAP to those reported for those periods under adopted IFRSs. The Company has elected not to restate business combinations prior to the date of transition to adopted IFRSs and cumulative translation differences for all foreign operations have been set to zero at 1 January 2006.

### **1.2 Basis of Preparation**

The financial statements are prepared under the historical cost basis except for certain items of property, plant and equipment held at deemed cost, financial assets and liabilities held at fair value and assets held for sale held at the lower of carrying value or fair value under the transition rules of IFRS.

The preparation of financial statements which comply with the provisions of adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, as well as income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the financial statements is included in note 27.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2006 for the purpose of the transition to IFRS, as required by IFRS 1. The impact of the transition from previous UK GAAP to IFRS is explained in note 25.



# Notes

Forming part of the financial statements

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## *Going concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 6 and the Operating and Financial Review on pages 7 and 8. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chairman's Statement on pages 2 to 6. In addition note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

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.

## **1.3 Basis of Consolidation**

### **(a) Subsidiaries**

Subsidiaries are all entities (including special purpose entities) which are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiary undertakings in the Company are stated at cost less any permanent impairment.

### **(b) Transactions eliminated on consolidation**

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment

## **1.4 Foreign currency translation**

For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the rate at the date of the transaction.

The assets and liabilities of overseas subsidiary operations are translated at the closing exchange rates. The income and expenses of foreign operations are translated to sterling at average exchange rates for the period to approximate to the exchange rates at the dates of the transactions. Foreign exchange differences arising on retranslations are recognised directly as a component of equity. Since 1 January 2006, the Group's date of transition to IFRSs, such differences have been recognised in the foreign exchange reserve. When a foreign operation is disposed of, in part or in full, the relevant amount of the foreign exchange reserve is transferred to income statement. The group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to adopted IFRSs (1 January 2006).

#### **1.5 Property, plant and equipment**

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged to the income statement to write off cost on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	30-50 years
Plant, machinery and equipment	3-20 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### **1.6 Intangible assets**

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the fair value of the consideration given and the fair value of the net identifiable assets acquired.

#### **1.7 Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Cost in the case of work in progress and finished goods includes an appropriate proportion of production overheads.

#### **1.8 Trade Receivables**

Trade and other receivables are stated initially at their fair value and subsequently at amortised cost using an effective interest rate method less an appropriate allowance for irrecoverable receivables.

# Notes

Forming part of the financial statements

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## 1.9 Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## 1.10 Impairment

The carrying amounts of the Group's assets, other than inventories (accounting policy 1.7), employee benefit assets (accounting policy 1.13) and deferred tax assets (accounting policy 1.18), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### (a) Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### (b) Reversal of impairment

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 1.11 Share Capital

Ordinary shares are classified as equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

## 1.12 Borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

## 1.13 Employee benefits

### (a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The assets of the schemes are held separately from those of the group in an independently administered fund.

**(b) Defined benefit plans**

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

All actuarial gains and losses at 1 January 2006, on the date of transition to IFRS, were recognised. Subsequently all actuarial gains and losses are recognised directly in the statement of recognised income and expense as they arise.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any currently available future refunds from the plan or reductions in future contributions to the plan.

**(c) Share-based payment transactions**

The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of IFRS 2 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. A corresponding credit is made to equity.

Share options granted after 7 November 2002, which have vested before 1 January 2006, have been ignored for restatement in line with the transitional provisions of IFRS 1. The proceeds received, net of any directly attributable expenses, are credited to share capital and share premium when the options are exercised.

**1.14 Provisions**

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

**1.15 Trade and other payables**

Trade and other payables are recognised at fair value.

# Notes

Forming part of the financial statements

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## 1.16 Revenue

Revenue comprises the fair value of the sale of goods, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

### Sale of goods

Sales of goods are recognised when a Group entity has delivered products to a customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

## 1.17 Expenses

### (a) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

### (b) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (c) Net Financing costs

Interest receivable includes interest on funds invested and is recognised in the income statement as it accrues, using the effective interest method and foreign exchange gains and losses.

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method.

Other Finance Income includes the expected return on pension scheme assets and Other Finance Costs includes interest on pension scheme liabilities for the defined benefit pension schemes operated by the Group.

## 1.18 Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **1.19 Segment Reporting**

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### **1.20 Assets held for sale**

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets and disposal groups are held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### **1.21 Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

### **1.22 Adoption of International Financial Reporting Standards**

The following accounting standards and interpretations have been adopted by the Group from 1 January 2007:

- IFRS 7 'Financial Instruments: Disclosures'
- IFRIC 8 'Scope of IFRS 2 Share Based Payments'
- Amendment to IAS 1 'Presentation of Financial Statements - "Capital Disclosures"'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 11/IFRS 2 'Share based payments "Group and Treasury Transactions"'

There was no significant impact on the financial statements arising from the adoption of these standards.

The following published standards and interpretations are not yet effective and have not been adopted early by the Group:

- IFRIC 2 'Service Concession Arrangements'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 14/IAS 19 'The limit on a Defined Benefits Assets, Minimum Funding Requirements and their Interaction'
- IFRS 8 'Operating Segments'
- Amendments to IAS1 'Presentation of Financial Statements - "A Revised Presentation"'
- Amendments to IAS 23 'Borrowing Costs'
- Amendments to IAS 27 'Consolidation and Separate Financial Statements'
- Amendments to IFRS 3 'Business Combinations'

The impact of these new standards on future accounting periods is currently being assessed.

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## 2 Segment Reporting

### (a) Primary reporting segment - 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	
		2007 £'000	2006 £'000
<b>Segment Revenue</b>		<b>12,951</b>	<b>13,304</b>
		Continuing operations	
		2007 £'000	2006 £'000
<b>Segment results</b>		<b>(1,484)</b>	<b>(2,313)</b>
		Consolidated	
		2007 £'000	2006 £'000
Unallocated corporate expense		(873)	(283)
Loss from operating activities		(2,357)	(2,596)
Net finance income		174	107
Loss before income tax - continuing operations		(2,183)	(2,489)
Income tax (charge)/credit (note 14 and 8)		(130)	769
Gain/(loss) on sale of discontinued operations, net of income tax (note 3)		4,054	(1,296)
<b>Profit/(loss) after tax and discontinued operations</b>		<b>1,741</b>	<b>(3,016)</b>

### (b) Secondary reporting segment - geographical segments

The Group's sales are mainly in countries within the eurozone and the UK.

Revenue		2007 £'000	2006 £'000
UK		2,183	2,417
Europe		8,752	9,068
Africa		17	24
Far East		235	217
Rest of World		1,764	1,578
		<b>12,951</b>	<b>13,304</b>

All revenue for the above reporting periods relates to the sole primary business segment of St Cuthberts papermill.

### 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 under UK GAAP and continue to be presented as discontinued operations at the date of transition to adopted IFRSs and for all subsequent reporting periods under IFRS.

#### Revenue

The revenue for each of the two discontinued business segments was £nil for the year ended 31 December 2007 (year ended 31 December 2006: £nil)

	2007 £'000	2006 £000
<b>Results</b>		
Other gains/(losses)		
- restructuring costs (note 6)	(729)	(924)
- reversal of provisions	-	159
- impairment of assets	-	(258)
- gain on sale of assets (note 10 and 11)	5,047	100
	4,318	(923)
Net finance costs (note 4)	(631)	(751)
	3,687	(1,674)
Income tax credit (note 14)	367	378
<b>Profit/(loss) from discontinued operations, net of income tax</b>	<b>4,054</b>	<b>(1,296)</b>

### 4 Finance Income and Expense

	Continuing Operations 2007 £'000	Discontinued Operations 2007 £'000	Total 2007 £'000
Expected return on defined benefit plan assets (note 24)	2,054	1,227	3,281
Interest receivable	13	-	13
Finance income	2,067	1,227	3,294
Interest on defined benefit plan obligations (note 24)	(1,605)	(1,374)	(2,979)
Bank interest payable	(288)	(484)	(772)
Finance expense	(1,893)	(1,858)	(3,751)
<b>Net finance income/(expense) recognised in the income statement</b>	<b>174</b>	<b>(631)</b>	<b>(457)</b>

	Continuing Operations 2006 £'000	Discontinued Operations 2006 £'000	Total 2006 £'000
Expected return on defined benefit plan assets (note 24)	1,647	1,385	3,032
Interest receivable	10	-	10
Finance income	1,657	1,385	3,042
Interest on defined benefit plan obligations (note 24)	(1,431)	(1,507)	(2,938)
Bank interest payable	(119)	(629)	(748)
Finance expense	(1,550)	(2,136)	(3,686)
<b>Net finance income/(expense) recognised in the income statement</b>	<b>107</b>	<b>(751)</b>	<b>(644)</b>



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## 5 Other Operating Income and Expense

	2007 £'000	2006 £'000
This is stated after charging/(crediting):		
<b>Depreciation of tangible fixed assets</b>		
Owned	536	539
Exceptional charge	-	176
<b>Operating lease rentals</b>		
Hire of plant and equipment	63	84
Other	64	61
<b>Auditor's remuneration:</b>		
<b>amounts receivable by Auditors and their associates in respect of,</b>		
Audit of these financial statements	39	37
Tax services	15	26
Services relating to remuneration and employee benefits	-	7
Other services	5	-
<b>Amortisation of government grants</b>	-	(2)
<b>Exchange gains</b>	(4)	(57)

In addition £14,000 of fees were paid to the auditors for other services in the year (2006, nil).

## 6 Administrative expenses - restructuring costs

Restructuring charges/(credits) included within the results from operating activities are analysed as follows:

	2007 £'000	2006 £'000
<b>Continuing operations</b>		
Administrative expense - restructuring costs	123	594
<b>Discontinued operations</b>	729	924
<b>Restructuring costs</b>	852	1,518

Restructuring costs in respect of continuing operations are largely made up of redundancy costs and in respect of discontinued operations relate to the closure and maintenance of sites associated with the sale of business segments, on which operations have ceased.

## 7 Information regarding directors and employees

The average number of persons employed by the Group (including directors), analysed by category was as follows:

	Group and Company	
	2007 Number	2006 Number
Production	76	86
Selling and distribution	5	7
Administration	21	22
	<b>102</b>	<b>115</b>

Staff costs in respect of these employees, including executive directors, were:

	Group and Company	
	2007 £'000	2006 £'000
Wages and salaries	2,919	3,250
Social security costs	311	333
Other pension costs - defined contribution scheme	116	130
Other pension costs - defined benefit scheme	103	132
Share based payment charge	-	23
	<b>3,449</b>	<b>3,868</b>

### Directors' Emoluments

The total emoluments of the directors during the year ended 31 December 2007 (and year ended 31 December 2006) were as follows:

	Fees/ Salary £	Bonus £	Other Benefits £	Sub-total 2007 £	Pension Contributions £	Total 2007 £	Total Emoluments 2006 £	Pension Contributions 2006 £	Total 2006 £
<b>Non-executive Directors</b>									
J G Bernander	25,000	10,000	-	35,000	-	35,000	35,000	-	35,000
J S Mason	20,000	10,000	-	30,000	-	30,000	30,000	-	30,000
	45,000	20,000	-	65,000	-	65,000	65,000	-	65,000
<b>Executive Directors</b>									
<b>Current Directors</b>									
J A F Walker	70,000	60,000	3,781	133,781	14,000	147,781	113,890	14,000	127,890
G M Thomson	100,000	50,000	1,753	151,753	15,000	166,753	141,576	15,000	156,576
K P Green	100,000	-	9,086	109,086	5,000	114,086	112,848	5,000	117,848
<b>Former Directors</b>									
D N Doorbar	39,130	-	3,522	42,652	5,870	48,522	110,353	15,000	125,353
R W G MacLeod	-	-	-	-	-	-	68,167	1,993	70,160
	<b>354,130</b>	<b>130,000</b>	<b>18,142</b>	<b>502,272</b>	<b>39,870</b>	<b>542,142</b>	<b>611,834</b>	<b>50,993</b>	<b>662,827</b>

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Retirement benefits accrue to 1 director under a defined benefit scheme and 2 directors under the money purchase schemes. The following information is provided in respect of Directors' entitlements under the defined benefit pension scheme:-

	Increase in accrued pension during year (excluding inflation)	Accrued Pension at 31.12.07	Transfer value of increase in accrued benefit (excluding inflation) less members own contributions
K P Green	(60)	35,275	(6,519)

### Directors' Beneficial Interests

The interests of each current director in the ordinary shares of the company according to the register maintained under Section 325 of the Companies Act are shown below.

	01.01.07	Additions	31.12.07
J G Bernander	12,336,730	-	12,336,730
J S Mason	215,000	-	215,000
J A F Walker	3,025,000	-	3,025,000
G M Thomson	595,000	-	595,000
K P Green	342,560	-	342,560

The following movements in share options took place during the year.

	01.01.07	Options granted during year	31.12.07	Exercise price	Date from which exercisable	Expiry date
<b>J A F Walker</b>						
Inveresk PLC Unapproved Executive Share Option scheme 2002	2,750,000	-	2,750,000	10.00p	01.08.04	01.08.14
Inveresk PLC Unapproved Executive Share Option scheme 2002	250,000	-	250,000	17.75p	14.12.06	14.12.16
<b>Total</b>	<b>3,000,000</b>	<b>-</b>	<b>3,000,000</b>			
<b>G M Thomson</b>						
Inveresk PLC Unapproved Executive Share Option scheme 2002	750,000	-	750,000	10.00p	01.08.04	01.08.14
Inveresk PLC Unapproved Executive Share Option scheme 2002	250,000	-	250,000	17.75p	14.12.06	14.12.16
<b>Total</b>	<b>1,000,000</b>	<b>-</b>	<b>1,000,000</b>			

	01.01.07	Options granted during year	31.12.07	Exercise price	Date from which exercisable	Expiry date
<b>K P Green</b>						
Inveresk PLC Approved Executive Share Option scheme 1993	110,000	-	110,000	18.83p	14.09.04	14.09.08
Inveresk PLC Unapproved Executive Share Option scheme 1993	40,000	-	40,000	18.83p	14.09.04	14.09.08
Inveresk PLC Unapproved Executive Share Option scheme 2002	250,000	-	250,000	10.00p	01.08.04	01.08.14
<b>Total</b>	<b>400,000</b>	<b>-</b>	<b>400,000</b>			
<b>D N Doorbar</b>						
Inveresk PLC Unapproved Executive Share Option scheme 2002	150,000	-	150,000	15.00p	26.07.05	27.07.15
<b>Total</b>	<b>150,000</b>	<b>-</b>	<b>150,000</b>			

Mr D N Doorbar resigned as a director on 22 May 2007.

## 8 INCOME TAX EXPENSE

The major components of tax expense/(income) are analysed as,

	2007 £'000	2006 £'000
Current tax expense	-	(1,147)
Deferred tax expense:		
Origination and reversal of temporary differences	(254)	-
Reduction in the tax rate	17	-
<b>Tax credit</b>	<b>(237)</b>	<b>(1,147)</b>

Current tax is recognised in the income statement as follows,

	2007 £'000	2006 £'000
Continuing operations	-	(769)
Discontinued operations	-	(378)
<b>Tax credit</b>	<b>-</b>	<b>(1,147)</b>

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### Reconciliation of total tax charge

The current tax charge for the year is lower (2006: lower) than the standard rate of corporation tax in the UK (30%, 2006: 30%).

The differences are explained below.

	2007 £'000	2006 £'000
Profit/(loss) for the year before tax	1,504	(4,163)
Tax at the applicable tax rate of 30% (2006: 30%)	451	(1,249)
Effects of:		
Expenses not deductible for tax purposes	16	18
Capital gains not taxable	(864)	-
Reduction in deferred taxes resulting from reduction in future tax rates	17	-
Losses not recognised	143	84
<b>Total income tax credit</b>	<b>(237)</b>	<b>(1,147)</b>

There are tax losses of approximately £25 million which are available to carry forward against future operating profits.

### 9 Earnings/(Loss) per share

	2007 Earnings/(Loss) £'000	2006 Earnings/(Loss) £'000	2007 Earnings/(Loss) pence per share	2006 Earnings/(Loss) pence per share
Basic				
- continuing operations (note 2)	(2,313)	(1,720)	(1.7)	(1.3)
- discontinued operations (note 3)	4,054	(1,296)	3.0	(0.9)
<b>Basic - Total</b>	<b>1,741</b>	<b>(3,016)</b>	<b>1.3</b>	<b>(2.2)</b>
Diluted				
- continuing operations (note 2)	(2,313)	(1,720)	(1.7)	(1.3)
- discontinued operations (note 3)	4,054	(1,296)	3.0	(0.9)
<b>Diluted - Total</b>	<b>1,741</b>	<b>(3,016)</b>	<b>1.3</b>	<b>(2.2)</b>

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:

	2007 Number of shares (000s)	2006 Number of shares (000s)
Average of shares in issue during the financial year	135,055	135,055
Adjustment for the dilutive effect of employee and director share options	-	1,660
<b>Average of shares in issue during the financial year diluted</b>	<b>135,055</b>	<b>136,715</b>

**10 Property, plant and equipment**

	Freehold land & buildings £'000	Plant machinery vehicle and equipment £'000	Assets under Construction £'000	Total £'000
<b>Group &amp; Company</b>				
<b>Cost or deemed cost</b>				
At 1 January 2006	4,265	16,551	130	20,946
Additions	-	-	39	39
Transfers	-	69	(69)	-
Disposals	-	(240)	-	(240)
At 1 January 2007	4,265	16,380	100	20,745
Additions	-	-	60	60
Disposals and retirements	-	(254)	-	(254)
<b>At 31 December 2007</b>	<b>4,265</b>	<b>16,126</b>	<b>160</b>	<b>20,551</b>
<b>Depreciation</b>				
At 1 January 2006	195	12,466	-	12,661
Charge for financial year	68	471	-	539
Exceptional charge	-	176	-	176
Disposals	-	(214)	-	(214)
At 1 January 2007	263	12,899	-	13,162
Charge for financial year	68	468	-	536
Disposals and retirements	-	(216)	-	(216)
<b>At 31 December 2007</b>	<b>331</b>	<b>13,151</b>	<b>-</b>	<b>13,482</b>
<b>Carrying Amounts</b>				
<b>At 31 December 2007</b>	<b>3,934</b>	<b>2,975</b>	<b>160</b>	<b>7,069</b>
At 31 December 2006	4,002	3,481	100	7,583
At 1 January 2006	4,070	4,085	130	8,285

Included in freehold land and buildings is £1,560,000 (2006: £1,560,000) of land not depreciated.

The loss on disposal of plant, machinery and equipment is £38,000 (2006: nil), (note 3).

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## 11 Assets classified as held for sale

### Group and Company

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

	Land & buildings £'000	Plant machinery and equipment £'000	Total £'000
At 1 January 2006	10,005	2,125	12,130
Disposals	-	-	-
At 1 January 2007	10,005	2,125	12,130
Disposals	(4,015)	(2,125)	(6,140)
<b>At 31 December 2007</b>	<b>5,990</b>	<b>-</b>	<b>5,990</b>

During 2007 assets relating to the discontinued operations were sold for the net amount of £11,225,000 resulting in a net gain to the income statement of £5,085,000 (note 3).

During 2006 assets held for sale were sold resulting in a net gain of £100,000.

## 12 Investment in Subsidiaries

### Company

	Shares £'000	Subsidiary Undertakings Loans £'000	Total £'000
<b>Cost at 31 December 2007, 1 January 2007 and 1 January 2006</b>	<b>22,154</b>	<b>410</b>	<b>22,564</b>
Provision for diminution in value At 31 December 2007, 1 January 2007 and 1 January 2006	(15,226)	(410)	(15,636)
<b>At 31 December 2007</b>	<b>6,928</b>	<b>-</b>	<b>6,928</b>
At 31 December 2006	6,928	-	6,928
At 1 January 2006	6,928	-	6,928

Inveresk PLC, the principal company, is incorporated in the U.K. and registered in Scotland.

The four wholly owned subsidiary companies, whose shares are held by Inveresk PLC, are as follows:

Subsidiary Undertaking	Business	Country of incorporation	Country of operation
Inveresk BV	Paper distribution	The Netherlands	The Netherlands
Weir Paper Holdings Limited	Dormant	Registered in England	Not applicable
Inveresk Management Limited	Management services	Registered in Scotland	United Kingdom
Salvinia Limited	Investment holding company	Registered in England	United Kingdom

### 13 Related Parties

The Company has a related party relationship with its subsidiaries (see note 12), with the employee benefit trust, with its directors and Alfa International Limited.

Apart from the investment in subsidiary shares as shown in note 12, all transactions and balances between the company, its subsidiaries and the employee benefit trust at 31 December 2007 and 31 December 2006 are written down or netted off to nil.

For the year ended 31 December 2007 the company advanced £3,000 to Inveresk BV (year ended 31 December 2006, £13,000) relating to the administrative expenses of the subsidiary.

#### Transactions with key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration, shareholdings and share options held by individual directors is provided in note 7.

	2007 £'000	2006 £'000
Short-term employee benefits	502	612
Long-term benefits	40	51
Share-based payment	-	23
	<b>542</b>	<b>686</b>

#### Other related party transactions

Alfa International Limited is deemed to be a related party by virtue of the fact that Mr J A F Walker is Chief Executive of Inveresk PLC and is a director with a controlling interest in Alfa International Limited. Inveresk PLC rents and obtains related office support and advisory services from Alfa International Limited in respect of its Head Office in London.

The relevant transaction amounts charged during the year ended 31 December 2007 are summarised below. There are no balances outstanding at 31 December 2007.

	2007 £'000	2006 £'000
Amounts charged to Inveresk PLC from Alfa International Limited in year	<b>101</b>	<b>80</b>



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## 14 Deferred Tax Assets and Liabilities

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances after offset for financial reporting purposes.

### Recognised deferred tax assets and liabilities - Group and Company

	2007 £'000	2006 £'000
Deferred tax liabilities	-	(367)
Deferred tax assets	-	367
<b>Net deferred tax</b>	-	-

Movements in deferred tax are recognised in the income statement as follows,

	2007 £'000	2006 £'000
Continuing operations	130	-
Discontinued operations	(367)	-
<b>Tax credit (note 8)</b>	<b>(237)</b>	-

The following are the major deferred tax liabilities and assets recognised by the Group and the Company and the movements thereon during the current and prior reporting periods.

### Deferred tax analysis - Group and Company

Assets/(liabilities)	Tax losses £'000	Property, plant and equipment £'000	Rolled over capital gains £'000	Employee benefits £'000	Other £'000	Total £'000
At 1 January 2006	672	(540)	(367)	-	235	-
Income statement (charge)/credit	(105)	218	-	-	(113)	-
At 31 December 2006	567	(322)	(367)	-	122	-
Income statement (charge)/credit	(167)	56	367	-	(2)	254
Charge to equity	-	-	-	(254)	-	(254)
Effect of change in tax rate						
- income statement	(27)	18	-	-	(8)	(17)
- equity	-	-	-	17	-	17
<b>At 31 December 2007</b>	<b>373</b>	<b>(248)</b>	<b>-</b>	<b>(237)</b>	<b>112</b>	<b>-</b>

The directors do not consider it appropriate to recognise a net deferred tax asset.

The Group's unrecognised deferred tax asset at 31 December 2007 was £6,605,000 (2006: £6,189,000); this amount would be recovered only if additional suitable profits became available.

**15 Inventories**

	Group and Company	
	2007	2006
	£'000	£'000
Raw materials and consumables	842	859
Work in progress	358	275
Finished goods	2,155	1,485
	<b>3,355</b>	<b>2,619</b>

The Group and Company has recognised £12.474m as an expense in the year (2006: £12.925m) which includes an increase of £190,000 to £1.184m relating to inventory write downs and increases in provisions held.

**16 Trade and other receivables**

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade receivables	1,861	2,572	1,861	2,572
Other receivables	365	280	365	279
Prepayments and accrued income	340	379	339	379
	<b>2,566</b>	<b>3,231</b>	<b>2,565</b>	<b>3,230</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 19.

**17 Trade and other payables**

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year:</b>				
Trade payables due to related parties	–	–	6,928	6,928
Other trade payables	2,698	2,806	2,696	2,805
Non trade payables and accrued expenses	373	417	373	417
Other taxes and social security	4	6	4	6
	<b>3,075</b>	<b>3,229</b>	<b>10,001</b>	<b>10,156</b>

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 19.

**18 Interest bearing loans and borrowings**

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year:</b>				
Bank loans: wholly repayable within one year (note 19)	1,231	1,231	1,231	1,231
<b>Amounts falling due after more than one year:</b>				
Bank loans: wholly repayable within five years (note 19)	3,077	4,308	3,077	4,308
<b>Total</b>	<b>4,308</b>	<b>5,539</b>	<b>4,308</b>	<b>5,539</b>

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## 19 Financial Instruments

The Group has exposure to the following risks from its use of financial instruments; liquidity risk, credit risk, currency risk and interest rate risk.

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to each of the noted risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies and the systems used to monitor activities are reviewed regularly by the Board.

Exposure to the currency and interest rate risks noted arise in the normal course of the Group's business. There are no derivative financial instruments entered into by the Group.

The Company is required to disclose information on its financial instruments and has adopted identical policies to the Group, where applicable. Separate disclosure is provided where necessary.

### i) Bank loans and overdrafts:

At 31 December 2007 the banking facilities comprised a £2.5 million working capital facility and a £4.3 million term loan, together totalling £6.8 million. In December 2008 these banking facilities have been replaced by a £4.4 million working capital facility and a £3.7 million term loan, together totalling £8.1 million and with an expiry date of 31 December 2009, and thereafter a term loan facility of £4.5M with an expiry date of 31 December 2010.

Borrowings are based in sterling, euros and US dollars with a floating interest rate based on Base Rate or LIBOR as applicable plus the bank's margin.

The Group's borrowings are secured by a fixed and floating charge over the assets of the Group.

### Liquidity risk

The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables indicate the periods in which contractual cashflows mature and the effective interest rates for the interest bearing financial liabilities at the balance sheet date.

#### Group - 2007

	Effective Interest Rate	Carrying Value £'000	Contractual Cashflows £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000
Overdraft	7.6%	(1,566)	(1,685)	(1,685)	-	-
Secured term loan	7.7%	(4,308)	(4,871)	(1,513)	(1,418)	(1,940)
Trade Receivables		1,861	1,861	1,861	-	-
Trade Payables		(2,698)	(2,698)	(2,698)	-	-
		(6,711)	(7,393)	(4,035)	(1,418)	(1,940)

**Group - 2006**

	Effective Interest Rate	Carrying Value £'000	Contractual Cashflows £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000
Overdraft	7.2%	(7,218)	(7,739)	(7,739)	-	-
Secured term loan	7.2%	(5,539)	(6,393)	(1,583)	(1,494)	(3,316)
Trade Receivables		2,572	2,572	2,572	-	-
Trade Payables		(2,806)	(2,806)	(2,806)	-	-
		(12,991)	(14,366)	(9,556)	(1,494)	(3,316)

**Company - 2007**

	Effective Interest Rate	Carrying Value £'000	Contractual Cashflows £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000
Overdraft	7.6%	(1,566)	(1,685)	(1,685)	-	-
Secured term loan	7.7%	(4,308)	(4,871)	(1,513)	(1,418)	(1,940)
Trade Receivables		1,861	1,861	1,861	-	-
Trade Payables		(2,696)	(2,696)	(2,696)	-	-
		(6,709)	(7,391)	(4,033)	(1,418)	(1,940)

**Company - 2006**

	Effective Interest Rate	Carrying Value £'000	Contractual Cashflows £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000
Overdraft	7.2%	(7,219)	(7,739)	(7,739)	-	-
Secured term loan	7.2%	(5,539)	(6,393)	(1,583)	(1,494)	(3,316)
Trade receivables		2,572	2,572	2,572	-	-
Trade Payables		(2,805)	(2,805)	(2,805)	-	-
		(12,991)	(14,365)	(9,555)	(1,494)	(3,316)

The table below indicates the additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

	2007 £'000	2006 £'000
Undrawn committed facilities expiring within one year	934	1,282

**ii) Trade and other receivables - financial instruments**

	2007 £'000	Group 2006 £'000	2007 £'000	Company 2006 £'000
Trade receivables - current	1,788	2,498	1,788	2,498
Trade receivables - overdue and not impaired				
- 0-3 months	5	-	5	-
Trade receivables - overdue and impaired				
- overdue	194	185	194	185
- impairment	(126)	(111)	(126)	(111)
	1,861	2,572	1,861	2,572
Other Receivables	180	196	180	195
<b>Total</b>	<b>2,041</b>	<b>2,768</b>	<b>2,041</b>	<b>2,767</b>

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The average credit period on sales of goods for continuing operations is 60 days. Trade receivables greater than 6 months overdue are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and the likely outcome of actions to recover past due amounts.

An allowance for doubtful debts has been provided amounting to £30,000 (2006: £30,000) for continuing operations and £96,000 (2006: £81,000) for discontinued operations.

### iii) Trade and other payables - financial instruments

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade payables	<b>2,698</b>	2,806	<b>2,696</b>	2,805
Amounts owed to subsidiary undertakings	–	–	<b>6,928</b>	6,928
Other payables	<b>256</b>	364	<b>256</b>	364
<b>Total</b>	<b>2,954</b>	3,170	<b>9,880</b>	10,097

The average credit period on purchases of goods and services is 54 days (2006, 62 days).

### iv) Currency risk

The Group and Company are exposed to currency risk on purchases, sales, borrowings and cash and cash equivalents that are denominated in a currency other than pounds sterling, primarily Euros. Foreign exchange risk arises from transactions and recognised assets and liabilities. The Group and Company do not use foreign exchange contracts to hedge their currency risk.

**Financial assets and financial liabilities  
by currency and category**

			<b>Group</b>		<b>Company</b>	
			<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Sterling and other currencies	Trade and other receivables	Loans and receivables	429	613	429	613
Euro	Trade and other receivables	Loans and receivables	1,317	1,911	1,317	1,910
US Dollar	Trade and other receivables	Loans and receivables	295	244	295	244
Sterling	Cash and cash equivalents - overdraft	Loans and receivables	(1,765)	(7,801)	(1,765)	(7,802)
US dollar	Cash and cash equivalents - overdraft	Loans and receivables	(42)	-	(42)	-
Sterling	Cash and cash equivalents	Loans and receivables	1	1	1	1
US dollar	Cash and cash equivalents	Loans and receivables	-	188	-	188
Euro	Cash and cash equivalents	Loans and receivables	241	398	241	398
Sterling	Interest bearing borrowings: term loan	Financial liability at amortised cost	(4,308)	(5,539)	(4,308)	(5,539)
Sterling and other currencies	Trade and other payables	Financial liability at amortised cost	1,824	2,026	8,750	8,953
Euro	Trade and other payables	Financial liability at amortised cost	980	963	980	963
US dollar	Trade and other payables	Financial liability at amortised cost	150	181	150	181

**v) Credit risk**

The Group and Company have no significant concentrations of credit risk. The exposure to credit risk is mitigated by selling to a diverse range of customers and where necessary, obtaining either letters of credit or payments in advance. In addition credit insurance is used to insure against risk of defaults.

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## vi) Sensitivity

### Group and Company

#### Interest rate sensitivity

At 31 December 2007 if interest rates had been 50 basis points higher and all other variables were held constant it is estimated that the Group's profit before tax would be approximately £50,000 (2006: £53,000) lower. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings and is based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments.

#### Currency rate sensitivity

It is estimated that a general increase of one percentage point in the value of Sterling against the Euro would have decreased the Group's profit before tax by approximately £47,000 (2006: £58,000). This is mainly attributable to receipts and purchases throughout the reporting year and is based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

## vii) Fair values

The following table details the book and fair values of the Group's and Company's financial instruments at 31 December 2007 and 31 December 2006.

	2007		2006	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Trade and other receivables - Group	2,041	2,041	2,768	2,768
Trade and other receivables - Company	2,041	2,041	2,767	2,767
Cash at bank - Group and Company	1	1	4	4
Net short-term borrowings and overdraft - Group	(2,797)	(2,797)	(8,449)	(8,449)
Net short-term borrowings and overdraft - Company	(2,797)	(2,797)	(8,450)	(8,450)
Long-term borrowings - Group and Company	(3,077)	(2,697)	(4,308)	(4,308)
Trade and other payables - Group	(2,954)	(2,954)	(3,170)	(3,170)
Trade and other payables - Company	(9,880)	(9,880)	(10,097)	(10,097)

## viii) Capital management

The Board's policy is to maintain a strong balance sheet so as to maintain investor, creditor and market confidence and to sustain future development of the business.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The use of share buy-backs is the Group's benchmark for investment decisions and is utilised at times when management believe the Group's shares are undervalued. The Group is also focused on debt reduction and continues to focus on realisation of assets held for sale to reduce debt.

There were no changes to the Group's capital management approach during the year.

**20 Provisions**

	Restructuring £'000	Onerous lease £'000	Total £'000
<b>Group and Company</b>			
Balance at 1 January 2006	551	24	575
Provisions made	1,649	-	1,649
Provisions utilised	(1,606)	(19)	(1,625)
Amounts released unused	(159)	-	(159)
Balance at 31 December 2006	435	5	440
Provisions made	842	-	842
Provisions utilised	(1,010)	(5)	(1,015)
<b>Balance at 31 December 2007</b>	<b>267</b>	<b>-</b>	<b>267</b>

The restructuring provision comprises fundamental reorganisation costs incurred in respect of the restructuring of the Group's operations.

Full utilisation is expected within the next financial year.

**21 Share capital**

Group and Company	Ordinary Shares issued and fully paid £'000	Authorised £'000
<b>At 31 December 2007 and 31 December 2006</b>		
- Ordinary shares of 1p	1,438	2,756

Under the Approved Executive Share Option Scheme 1993, 3 employees and 1 director holds options to subscribe for up to 260,000 ordinary shares of 1p each at a price of 18.83p exercisable between 2004 and 2008 subject to performance conditions based on the market capitalisation of the company reaching predetermined levels.

One director hold options from the Unapproved Executive Share Option Scheme 1993, to subscribe for up to 40,000 ordinary shares of 1p each at a price of 18.83p, exercisable between 2004 and 2008 subject to performance conditions based on the market capitalisation of the company reaching predetermined levels.

Under the Unapproved Executive Share Option Scheme 2002, 4 directors and one employee hold options to subscribe for up to 3,750,000 ordinary shares of 1p each at a price of 10p exercisable between 2004 and 2014, 150,000 ordinary shares of 1p each at a price of 15p exercisable between 2005 and 2015 and 600,000 ordinary shares of 1p each at a price of 17.75p exercisable between 2006 and 2016. There are no performance conditions on these share options.

At 31 December 2007, there were 7,250,000 ordinary shares of 1p each registered in the name of The Inveresk ESOP Trustee Company Limited with a market value of £653,000. Of these shares, 4,720,000 with a market value of £425,000 were under option to employees and had vested unconditionally by the year end. A further 80,000 shares with a market value of £7,000 held by the ESOP trust have not



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yet vested unconditionally in employees. The remaining 2,450,000 shares with a market value of £221,000 have not been allocated to employees as at 31 December 2007.

These shares are held for the benefit of directors and other executives in order to satisfy obligations under the Group's share option schemes. All costs of administering the ESOP have been charged to the income statement as they arise.

The market prices of the ordinary shares during the year were:

		Pence
01 January 2007	(opening)	17.8
06 June 2007	(high)	18.0
31 December 2007	(year end)	9.0

## 22 Retained earnings

	Group £'000	Company £'000
At 1 January 2006	9,765	9,755
Loss for the year	(3,016)	(3,008)
Credit for employees share awards	23	23
Net actuarial loss recognised in retirement benefit schemes	(449)	(449)
Exchange adjustments	(1)	-
At 31 December 2006	6,322	6,321
Profit for the year	1,741	1,743
Net actuarial gain recognised in retirement benefit schemes (net of tax)	1,110	1,110
At 31 December 2007	9,173	9,174

## 23 Commitments and contingencies

### Capital Commitments

There were no capital commitments existing at 31 December 2007 (31 December 2006: £5,000).

### Operating leases

At the balance sheet date the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of plant and equipment which fall due as follows:

	2007 £'000	2006 £'000
Less than one year	2	14
Between one and five years	-	5
	2	19

In addition, rentals payable in the financial year to 31 December 2008 previously held under operating leases which expire outwith five years in respect of land and buildings amount to £7,000 (2007: £69,500). These rentals will cease during 2008.

### **Contingencies**

Under the Agreement relating to the sale of the "Gemini" brand, 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 £909K 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. As a consequence no amounts have been recognised in the annual accounts for 2007.

In addition, a number of claims have been raised by Tullis Russell Papermakers Ltd in respect of faulty paper produced at Carrongrove Mill during a very limited period prior to the closure of the mill on 8 November 2005. The Directors believe that adequate and full provision in respect of these claims has been made in the 2007 accounts.

## **24 Retirement benefit schemes**

### **Group and Company**

#### **Defined Contribution Schemes**

The Inveresk Group Personal Pension and Life Assurance Scheme ("the Insured Scheme") is a defined contribution personal pension scheme for employees. The Insured Scheme is an insured money purchase scheme administered independently from the Group. Contributions are made by the Group at a rate ranging between 3% and 7% of salary subject to employees' length of service and amounted to £111,000 (2006: £129,000).

Contributions amounting to £7,000 (2006: £8,000) were payable to the fund at the year end and are included within creditors.

Certain Directors and senior employees belong to the Executive Retirement Benefit Scheme which is also a defined contribution scheme administered independently from the Group. During the financial year contributions of £5,000 (2006: £5,000) were paid to this scheme.

#### **Defined Benefit Schemes**

The Group operates the Inveresk Group Staff Pension Plan ("the Plan") which is a defined benefit scheme with assets held separately from those of the Group and which provides benefits based on final pensionable earnings. The plan is closed to new entrants. As a consequence the current service cost calculated under the projected unit method can be expected to increase over time, as the average age of the membership increases.

A full actuarial valuation was carried out at 1 April 2005 and updated for IAS 19 purposes to 31 December 2007 by a qualified independent actuary.

The Group also operates the Weir Group Pension Scheme ("the Scheme") which is a defined benefit pension scheme, with assets held separately from those of the Group, which provides benefits based on earnings of members as at 30 June 2000. The scheme was closed to new entrants from 1 March 2000 and all active members became deferred members at 1 July 2000. No service charge applies after that date as all members ceased accruing benefits from 1 July 2000. The latest full actuarial valuation of the Scheme was carried out as at 5 April 2004 and updated for IAS 19 purposes to 31 December 2007 by a qualified independent actuary.

The major assumptions used in the IAS 19 valuations of the Inveresk Plan and the Weir Scheme were:

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	<b>Weir Scheme 2007</b>	<b>Weir Scheme 2006</b>	<b>Weir Scheme 2005</b>	<b>Inveresk Plan 2007</b>	<b>Inveresk Plan 2006</b>	<b>Inveresk Plan 2005</b>
Rate of increase in salaries	n/a	n/a	n/a	3.2%	2.8%	3.1%
Rate of increase in deferred pensions	3.2%	2.8%	2.6%	3.2%	3.0%	3.0%
Rate of increase in pensions in payment	3.2%	3.0%	3.0%	3.2%	3.0%	3.0%
Discount rate applied to scheme liabilities	6.0%	5.3%	4.9%	6.0%	5.3%	4.9%
Inflation assumption	3.2%	2.8%	2.6%	3.2%	2.8%	2.6%

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

### Scheme Assets

The fair value of both schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cashflow projections over long periods and thus inherently uncertain are noted below.

The mortality assumptions adopted at 31 December 2007 imply the following residual life expectancies,

a) Weir Scheme - at age 63,	Males 21.2 years	(2006, 21.2 years)
	Females 24.2 years	(2006, 24.2 years)
b) Inveresk Plan - at age 65,	Males 19.8 years	(2006, 19.8 years)
	Females 22.8 years	(2006, 22.8 years)

### Group and Company

#### Inveresk Plan

The amounts recognised in the balance sheet are as follows

	<b>2007 £'000</b>	<b>2006 £'000</b>
Present value of funded obligations	(29,134)	(31,320)
Fair value of plan assets	37,285	38,454
Surplus in the scheme	8,151	7,134
Non-recoverable surplus	(7,305)	(5,724)
<b>Total recoverable surplus</b>	<b>846</b>	<b>1,410</b>

**Movement in the present value of the defined benefit obligation**

	2007 £'000	2006 £'000
Defined benefit obligation at 1 January	31,320	33,951
Current service cost	103	132
Interest cost	1,605	1,630
Contribution by plan participants	30	40
Actuarial gain	(1,724)	(2,876)
Benefits paid and death in service insurance premiums	(2,200)	(1,557)
<b>Defined benefit obligation at 31 December - Inveresk Plan</b>	<b>29,134</b>	<b>31,320</b>

**Reconciliation of opening and closing balances of the market value of Plan assets**

	2007 £'000	2006 £'000
Fair value of assets at 1 January	38,454	38,052
Expected return on assets	2,054	1,876
Actuarial losses	(1,134)	(58)
Contributions by employer	81	101
Contributions by plan participants	30	40
Benefits paid and death in service insurance premiums	(2,200)	(1,557)
<b>Fair value of assets at 31 December - Inveresk Plan</b>	<b>37,285</b>	<b>38,454</b>

**Movement of non-recoverable pension surplus**

	2007 £'000	2006 £'000
Non-recoverable surplus at 1 January	(5,724)	(997)
Increase in non-recoverable surplus	(1,581)	(4,727)
<b>Non-recoverable surplus at 31 December - Inveresk Plan</b>	<b>(7,305)</b>	<b>(5,724)</b>

The value of scheme assets is impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds or reductions in future contributions.

**The expected long term rates of return and value of Plan assets are as follows**

	2007 %	2006 %	2005 %	2007 £'000	2006 £'000	2005 £'000
Equities	7.6%	7.6%	7.1%	9,629	10,146	9,844
Gilts *	4.6%	4.7%	4.1%	21,010	24,186	24,696
Corporate Bonds *	6.0%	-	-	3,483	-	-
Property	7.6%	7.6%	7.1%	1,795	2,187	1,876
Other (Cash)	4.6%	4.6%	4.1%	1,368	1,935	1,636
<b>Total</b>	<b>5.7%</b>	<b>5.6%</b>	<b>5.0%</b>	<b>37,285</b>	<b>38,454</b>	<b>38,052</b>

\* Gilts and Corporate bonds were combined as 'Fixed Interest' in both 2006 and 2005, with a single overall assumption applying for the expected long term rate of return on this asset category.

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Employer contributions are currently paid at the rate of 14% of Pensionable Salaries less the employee contribution. Employee's contributions are payable at the rate of 3% of Pensionable Salaries up to the Upper Earnings Limit and 7% above the Upper Earnings Limit.

### Expense recognised in income statement

	2007 £'000	2006 £'000
Current service cost (note 7)	103	132
Interest on obligations (note 4)	1,605	1,630
Expected return on plan assets (note 4)	(2,054)	(1,876)
<b>Total income</b>	<b>(346)</b>	<b>(114)</b>

### Gains/(losses) recognised in statement of recognised income and expense

	2007 £'000	2006 £'000
Difference between expected and actual return on scheme assets:		
Amount	(1,134)	56
Percentage of scheme assets	3.0%	0.1%
Experience gains and losses arising on the scheme liabilities:		
Amount	(298)	568
Percentage of present value of scheme liabilities	-1.0%	1.8%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:		
Amount	2,022	2,308
Percentage of present value of scheme liabilities	6.9%	7.4%
Effects of limit on recoverable surplus:		
Amount	(1,581)	(4,727)
Percentage of present value of scheme liabilities	-5.4%	-15.1%
Total amount recognised in statement of recognised income and expense:		
Amount	(991)	(1,795)
Percentage of present value of scheme liabilities	-3.4%	-5.7%

### Historical information

	2007 £'000	2006 £'000	2005 £'000
Fair value of plan assets	37,285	38,454	38,052
Defined benefit obligation	(29,134)	(31,320)	(33,951)
Surplus in Plan	8,151	7,134	4,101

	2007 £'000	2006 £'000	2005 £'000
Experience adjustment arising on plan assets	(1,134)	56	3,071
Experience adjustment arising on plan liabilities	(298)	568	(1,184)
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	2,022	2,308	(3,690)

#### Weir Scheme

The amounts recognised in the balance sheet are as follows

	2007 £'000	2006 £'000
Present value of funded obligations	(23,825)	(26,330)
Fair value of plan assets	24,105	23,539
Surplus in scheme/(present value of unfunded obligations)	280	(2,791)
Non - recoverable surplus	(280)	-
<b>Total present value of unfunded obligations</b>	-	(2,791)

#### Movement in the present value of the defined benefit obligation

	2007 £'000	2006 £'000
Defined benefit obligation at 1 January	26,330	27,033
Interest cost	1,374	1,308
Actuarial gain	(3,082)	(1,339)
Benefits paid and death in service insurance premiums	(797)	(672)
<b>Defined benefit obligation at 31 December - Weir scheme</b>	<b>23,825</b>	<b>26,330</b>

#### Reconciliation of opening and closing balances of the market value of Scheme assets

	2007 £'000	2006 £'000
Fair value of assets at start of year	23,539	22,334
Expected return on assets	1,227	1,156
Actuarial (losses)/gains	(464)	121
Contributions by employer	600	600
Benefits paid and death in service insurance premiums	(797)	(672)
<b>Fair value of assets at the end of year - Weir scheme</b>	<b>24,105</b>	<b>23,539</b>

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### Movement of non-recoverable pension surplus

	2007 £'000	2006 £'000
Non-recoverable surplus at 1 January	-	-
Increase in non-recoverable surplus	(280)	-
<b>Non-recoverable surplus at 31 December - Weir scheme</b>	<b>(280)</b>	<b>-</b>

The value of scheme assets is impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds or reductions in future contributions.

### The expected long term rates of return and value of Plan assets are as follows

	2007	2006	2005	2007 £'000	2006 £'000	2005 £'000
Equities	7.6%	7.6%	7.1%	6,721	7,106	7,201
Gilts	4.6%	4.6%	4.1%	10,169	9,364	8,739
Corporate Bonds	6.0%	5.3%	4.9%	7,207	7,052	6,380
Other (Cash)	4.6%	4.6%	4.1%	8	17	14
<b>Total</b>	<b>5.9%</b>	<b>5.7%</b>	<b>5.3%</b>	<b>24,105</b>	<b>23,539</b>	<b>22,334</b>

### Expense recognised in income statement

	2007 £'000	2006 £'000
Interest on obligations (note 4)	1,374	1,308
Expected return on plan assets (note 4)	(1,227)	(1,156)
<b>Total expense</b>	<b>147</b>	<b>152</b>

**Gains/(losses) recognised in statement of recognised income and expense**

	2007 £'000	2006 £'000
Difference between expected and actual return on scheme assets:		
Amount	(464)	121
Percentage of scheme assets	1.9%	0.5%
Experience gains and losses arising on the scheme liabilities:		
Amount	488	(1)
Percentage of present value of scheme liabilities	2.0%	0.0%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:		
Amount	2,594	1,340
Percentage of present value of scheme liabilities	10.9%	5.1%
Effects of limit on recoverable surplus:		
Amount	(280)	-
Percentage of present value of scheme liabilities	1.2%	0.0%
Total amount recognised in statement of recognised income and expense:		
Amount	2,338	1,460
Percentage of present value of scheme liabilities	9.8%	5.5%

**Historical information**

	2007 £'000	2006 £'000	2005 £'000
Fair value of plan assets	24,105	23,539	22,334
Defined benefit obligation	(23,825)	(26,330)	(27,033)
Surplus/(deficit) in Plan	280	(2,791)	(4,699)
	2007 £'000	2006 £'000	2005 £'000
Experience adjustment arising on plan assets	(464)	121	1,548
Experience adjustment arising on plan liabilities	488	(1)	330
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	2,594	1,340	(2,556)



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## 25 Explanation of transition to adopted IFRSs

This is the Groups first IFRS annual consolidated financial statements prepared in accordance with adopted IFRSs.

The accounting policies in note 1 have been applied in preparing these financial statements for the year ended 31 December 2007, the year ended 31 December 2006 and in the preparation of an opening IFRS balance sheet at 1 January 2006, the Group and Company's date of transition.

In preparing its opening IFRS balance sheet and financial statements for the year ended 31 December 2006 the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP.

IFRS 1 allows first time adopters certain exemptions from the general requirements to retrospectively apply IFRS as effective for the 31 December 2005 year end. The optional exemptions taken by the Group are as follows.

### **Fixed Asset revaluation as deemed cost**

Revaluation of property under previous UK GAAP has been used as deemed cost on transition to IFRS.

### **Employee benefits**

The Group has elected to recognise all cumulative actuarial gains and losses from employee benefit schemes at the date of transition.

### **Business Combinations**

The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to transactions that took place prior to the transition date.

### **Foreign currency translation**

Cumulative translation differences in respect of foreign operations have been deemed to be nil at the date of transition.

### **Group and Company**

An explanation of how the transition from previous GAAP to adopted IFRSs has affected the Group and Company financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The IFRS balance sheets prepared on transition to adopted IFRSs as at 1 January 2006 and 31 December 2006 and presented in these financial statements and notes to the accounts, differ to those reported in the Interim Accounts for the six months ended 30 June 2007 as a result of,

- a) showing deferred tax assets and deferred tax liabilities separately in these financial statements and notes to the accounts, and
- b) using more detailed information which has become available regarding the properties held by the Group and Company, which has removed the temporary differences previously calculated on those assets.

Similarly, differences in the reconciliation of profit for the year ended 31 December 2006 under adopted IFRSs between these financial statements and notes to the accounts and the Interim Accounts for the six months ended 30 June 2007 are due to the same changes to the reporting and calculation of deferred tax assets and liabilities as above.

Reconciliation of equity at 1 January 2006 and 31 December 2006 - Group

		Effect of transition			Effect of transition		
		GAAP	to IFRSs	IFRS	GAAP	to IFRSs	IFRS
		1 January 2006			31 December 2006		
Note		£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Property, plant and equipment	a	10,410	(2,326)	8,084	9,708	(2,125)	7,583
Deferred tax asset	d	-	367	367	-	367	367
<b>Total non-current assets</b>		10,410	(1,959)	8,451	9,708	(1,758)	7,950
Inventories		2,989	-	2,989	2,619	-	2,619
Trade and other receivables		5,462	-	5,462	3,231	-	3,231
Retirement benefit assets	c	2,173	931	3,104	987	423	1,410
Cash and cash equivalents		16	-	16	4	-	4
Assets classified as held for sale	a	10,005	2,326	12,331	10,005	2,125	12,130
<b>Total current assets</b>		20,645	3,257	23,902	16,846	2,548	19,394
<b>Total assets</b>		31,055	1,298	32,353	26,554	790	27,344
<b>Equity</b>							
Share Capital		1,438	-	1,438	1,438	-	1,438
Reserves	b	11,220	(11,220)	-	11,170	(11,170)	-
Retained earnings	b	(1,455)	11,220	9,765	(4,848)	11,170	6,322
<b>Total equity</b>		11,203	-	11,203	7,760	-	7,760
<b>Liabilities</b>							
Interest bearing loans and borrowings		5,538	-	5,538	4,308	-	4,308
Retirement benefit obligations	c	3,768	931	4,699	2,368	423	2,791
Deferred tax liabilities	d	-	367	367	-	367	367
<b>Total non-current liabilities</b>		9,306	1,298	10,604	6,676	790	7,466
Bank overdraft		2,692	-	2,692	7,218	-	7,218
Interest bearing loans and borrowings		1,231	-	1,231	1,231	-	1,231
Trade and other payables		6,048	-	6,048	3,229	-	3,229
Provisions		575	-	575	440	-	440
<b>Total current liabilities</b>		10,546	-	10,546	12,118	-	12,118
<b>Total liabilities</b>		19,852	1,298	21,150	18,794	790	19,584
<b>Total equity and liabilities</b>		31,055	1,298	32,353	26,554	790	27,344

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## Notes to the reconciliation of equity

- (a) Plant, machinery and equipment associated with the discontinued operations of the fine papers division and the 'Gemini' paperboard business have been reclassified as 'assets held for sale'
- (b) The revaluation reserve containing the increases and decreases in revaluations prior to 1 January 2006 under UK GAAP, has been transferred to equity following the option to record assets at the transition date on the basis of deemed cost.
- (c) Deferred tax previously netted off within retirement benefit schemes within assets and liabilities is now excluded from the retirement benefit scheme assets and liabilities and is included within deferred tax assets and deferred tax liabilities as appropriate.
- (d) Deferred tax assets and liabilities are recognised on adoption of IAS 12 'Income taxes' on all temporary differences and certain deferred tax assets and liabilities have been offset.

## Reconciliation of profit for the year ended 31 December 2006 - Group

		UK GAAP	Effect of transition to IFRS	IFRS
		For the year ended 31 December 2006		
	Note	£'000	£'000	£'000
<b>Continuing operations</b>				
Revenue		13,304	–	13,304
Cost of Sales		(12,925)	–	(12,925)
<b>Gross Profit</b>		379	–	379
Distribution expenses		(856)	–	(856)
Administrative expenses		(1,525)	–	(1,525)
Administrative expenses - restructuring costs		(594)	–	(594)
<b>Results from operating activities</b>		(2,596)	–	(2,596)
Finance income	a	127	1,530	1,657
Finance expenses	a	(119)	(1,431)	(1,550)
<b>Net finance income</b>		8	99	107
<b>Loss before income tax</b>		(2,588)	99	(2,489)
Income tax		769	–	769
<b>Loss from continuing operations</b>		(1,819)	99	(1,720)
<b>Discontinued operations</b>				
Loss from discontinued operations, net of income tax	a	(1,311)	15	(1,296)
<b>Loss for the year</b>		(3,130)	114	(3,016)

## Notes to the reconciliation of profit

- (a) Under UK GAAP a restriction was put on the expected rate of return from a defined benefit pension scheme which is not applied under IAS 19 'Employee benefits'. The effect of this adjustment is to reduce the loss for the twelve months ended 31 December 2006 by £114,000. This adjustment is allocated on the basis of £99,000 to continuing operations and £15,000 to discontinued operations. There is no effect on the asset or liability recognised for the pension

scheme as there is an equal and opposite actuarial loss recognised in the consolidated statement of recognised income and expense.

Finance income and finance expenses are adjusted to present the expected return on defined benefit plan assets and interest on defined benefit obligations on separate lines, together with interest receivable on funds invested and interest payable on borrowings respectively (note 4).

There are no material adjustments to the cash flow statement of the Group arising from the transition to, and adoption of, International Financial Reporting Standards.

### Company

The adopted IFRS policies of the Company are identical to those of the Group where applicable.

An explanation of how the transition from previous GAAP to adopted IFRSs has affected the Company financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

### Reconciliation of equity at 1 January 2006 and 31 December 2006 - Company

	Note	Effect of transition to IFRSs			Effect of transition to IFRSs		
		GAAP	IFRS		GAAP	IFRS	
		1 January 2006	31 December 2006		1 January 2006	31 December 2006	
		£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Property, plant and equipment	a	10,410	(2,326)	8,084	9,708	(2,125)	7,583
Investments		6,928	-	6,928	6,928	-	6,928
Deferred tax asset	d	-	367	367	-	367	367
<b>Total non-current assets</b>		<b>17,338</b>	<b>(1,959)</b>	<b>15,379</b>	<b>16,636</b>	<b>(1,758)</b>	<b>14,878</b>
Inventories		2,989	-	2,989	2,619	-	2,619
Trade and other receivables		5,460	-	5,460	3,230	-	3,230
Retirement benefit assets	c	2,173	931	3,104	987	423	1,410
Cash and cash equivalents		2	-	2	4	-	4
Assets classified as held for sale	a	10,005	2,326	12,331	10,005	2,125	12,130
<b>Total current assets</b>		<b>20,629</b>	<b>3,257</b>	<b>23,886</b>	<b>16,845</b>	<b>2,548</b>	<b>19,393</b>
<b>Total assets</b>		<b>37,967</b>	<b>1,298</b>	<b>39,265</b>	<b>33,481</b>	<b>790</b>	<b>34,271</b>
<b>Equity</b>							
Share Capital		1,438	-	1,438	1,438	-	1,438
Reserves	b	11,220	(11,220)	-	11,170	(11,170)	-
Retained earnings	b	(1,465)	11,220	9,755	(4,849)	11,170	6,321
<b>Total equity</b>		<b>11,193</b>	<b>-</b>	<b>11,193</b>	<b>7,759</b>	<b>-</b>	<b>7,759</b>

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Note	Effect of transition			Effect of transition		
	GAAP	to IFRSs	IFRS	GAAP	to IFRSs	IFRS
	1 January 2006			31 December 2006		
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Liabilities</b>						
Interest bearing loans and borrowings	5,538	-	5,538	4,308	-	4,308
Retirement benefit obligations	c 3,768	931	4,699	2,368	423	2,791
Deferred tax liabilities	d -	367	367	-	367	367
<b>Total non-current liabilities</b>	9,306	1,298	10,604	6,676	790	7,466
Bank overdraft	2,692	-	2,692	7,219	-	7,219
Interest bearing loans and borrowings	1,231	-	1,231	1,231	-	1,231
Trade and other payables	12,970	-	12,970	10,156	-	10,156
Provisions	575	-	575	440	-	440
<b>Total current liabilities</b>	17,468	-	17,468	19,046	-	19,046
<b>Total liabilities</b>	26,774	1,298	28,072	25,722	790	26,512
<b>Total equity and liabilities</b>	37,967	1,298	39,265	33,481	790	34,271

## Notes to the reconciliation of equity

- Plant, machinery and equipment associated with the discontinued operations of the fine papers division and the 'Gemini' paperboard business have been reclassified as 'assets held for sale'.
- The revaluation reserve containing the increases and decreases in revaluations prior to 1 January 2006 under UK GAAP, has been transferred to equity following the option to record assets at the transition date on the basis of deemed cost.
- Deferred tax previously netted off within retirement benefit schemes within assets and liabilities is now excluded from the retirement benefit scheme assets and liabilities and is included within deferred tax assets and deferred tax liabilities as appropriate.
- Deferred tax assets and liabilities are recognised on adoption of IAS 12 'Income taxes' on all temporary differences and certain deferred tax assets and liabilities have been offset.

## Reconciliation of profit for the year ended 31 December 2006 - Company

The income statement/profit of the Company can be reconciled as follows:

	£'000
UK GAAP loss after tax for the year ending 31 December 2006	(3,122)
add, reversal of restriction on expected rate of return on defined retirement benefit scheme which is not applied under IAS 19 'Employee Benefits'	114
<b>Adopted IFRS profit after tax for the year ended 31 December 2006</b>	<b>(3,008)</b>

There are no material adjustments to the cash flow statement of the Company arising from the transition to, and adoption of, International Financial Reporting Standards.

**26 Cash flows from discontinued operations**

<b>Group and Company</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
<b>Cash flows from operating activities</b>		
Profit/(loss) for the year from discontinued operations	4,054	(1,296)
Adjustments for:		
Net finance expense	631	751
Gain on sale of assets	(5,047)	(100)
Income tax credit	(367)	(378)
Pensions service charge net of contributions	(600)	(600)
Change in working capital	84	360
Change in provisions	(168)	(116)
Interest paid	(659)	(611)
<b>Discontinued operations - net cash used in operating activities</b>	<b>(2,072)</b>	<b>(1,990)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of assets	11,225	126
<b>Discontinued operations - net cash from investing activities</b>	<b>11,225</b>	<b>126</b>
<b>Discontinued operations - net increase/(decrease) in cash and cash equivalents at 31 December</b>	<b>9,153</b>	<b>(1,864)</b>

## 27 Accounting estimates and judgements

### Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The most critical of these accounting judgement and estimation areas are noted below.

### Employee benefits - defined benefit pensions

The determination of the Group's obligations and expense for defined benefit pensions is dependent on the selection, by the Board of directors, of assumptions used by the pension scheme actuary in calculating these amounts. The assumptions applied are described in note 24 and include, amongst others, the discount rate, the expected return on plan assets, rates of increase in salaries and mortality rates. While the directors consider that the assumptions are appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect the amount of the Group's future pension obligations, actuarial gains and losses included in the statement of recognised income and expense in future years and the future service charges. The carrying amount of the liability and assets for defined benefit obligations as at 31 December 2007 are shown in note 24.

### Defined benefit pension schemes - pensions non-recoverable surplus

The value of scheme assets is impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered fully through refunds or reductions in future contributions.

### Assets held for sale

Whilst assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, the amounts measured and presented in the balance sheet as 'Assets held for sale' may not reflect the amounts which may be realised from the sale of such assets as the directors of the Company seek to maximise the return for shareholders.

## 28 Events after the Balance Sheet Date

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 (2006: £10,356,000).

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.