



27 May 2010

Scapa Group plc Preliminary Results

Scapa Group plc, a global supplier of technical adhesive tapes, today announced its Preliminary Results for the year ended 31 March 2010.

Financial Highlights

- Return to trading profit and cash generation in H2
- Significant turnaround in H2 underlying trading profit* to £2.6m from a loss of £6.4m (H2-2009)
- Net cash balance of £4.8m after funding £5.7m of exceptional cash flows

Other Highlights

- Pension deficit down to £38.6m (£27.7m after tax) with annual cash outflows reduced by £1.2m for the next three years
- Major restructuring programme delivering annual cost savings of over £11.0m
- Under IAS 37, provision made for potential asbestos indemnity exposures - fully covered by robust insurance assets
- Senior management strengthened to support global market structure

Commenting on the results, Chief Executive Heejae Chae said:

"We returned to trading profitability and cash generation in the second half of the year. The Group's second half profit alone is a £9.0m turnaround from the same period last year. We completed our cost cutting programme ahead of plan with annualised savings realised at over £11.0m. Close management of working capital combined with action on the cost base has maintained a strong net cash position.

"Revenue has increased sequentially for two consecutive halves although full year sales remain below the prior year on an underlying basis. The recovery in sales volumes is continuing in the first two periods of the new financial year and North America, which had previously lagged behind, is beginning to show signs of growth.

"The Board recently approved a three-year strategy to focus on our key markets: Medical, Industrial, Electronics, Consumer and Transport. We have restructured our management around the key markets and new skills and capabilities have been added to the team. The business outlook in most of our markets is becoming firmer."

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* Figures shown here and elsewhere as 'underlying' adjust for the impact of disposals and are adjusted to current year foreign currency rates. 'Trading profit/(loss)' is operating profit/(loss) before exceptional items.

Chairman's Statement

It has been a year of significant change as we progress towards our vision of being a world class, inspired, market driven team, focused on optimising customer and shareholder value through responsible, agile delivery of specialist tape solutions.

In the next stage of the journey we are re-shaping our business around key markets and core manufacturing competencies.

Business performance

Like so many businesses, Scapa has been affected by the global economic downturn and we took swift action to mitigate its potential effects. During the first half of 2009/10 we continued our focus on cost control, cash and working capital. The closure of our Automotive facility in France with a transfer of much of the production to other Group sites was a significant milestone in the global cost reduction programme. Swift action on our cost base, coupled with our new focus on key markets, has positioned us well to take advantage of recovering volumes.

Revenue for the year was £176.7m, an increase of £2.7m, which reflected favourable currency movements of £12.3m. On an underlying basis, sales decreased by £9.6m (5%) with second half growth of £8.4m partly offsetting the first half fall of £18.0m.

Our European operations, which represent almost 60% of our business by revenue, recovered well in the second half. North American progress has been slower but is beginning to show signs of improvement. In Asia revenue growth was moderate at first but gathered momentum in the second half, finishing the year 20% ahead of the prior year.

Trading profit for the year as a whole stood at £1.6m (2009: trading loss of £1.0m). The second half profit of £2.6m compares very well with the second half trading loss in the prior period of £5.8m. In Europe, the recovery in volumes in the second half led to trading profits of £2.6m (2009: £3.9m loss) which more than offset first half losses of £1.0m (2009: £3.1m profit). Profit margins in North America were squeezed throughout the year by lower production volumes. However, trading profit still improved by £0.6m to £2.1m (2009: £1.5m) as a result of cost reduction measures. In Asia, trading profit was flat at £0.9m due to adverse foreign currency rates and thinner margins on volume growth. In February we appointed a new Asian Managing Director and we anticipate further strong focus on value added technical products in the electronics and infrastructure sectors in that region.

The business's cash performance was monitored very closely during the last twelve months and although the effects of the economic downturn could not be eliminated, strong cash management has left the Group with positive net cash after borrowings of £4.8m (2009: £6.8m). This is after funding £5.7m (2009: £2.5m) in exceptional costs and one-off restructuring projects.

As last year, the Group maintains a cash deposit of US\$10m which is restricted until December 2011 and which is then available to fund asbestos litigation defence costs for product liability claims.

Pensions

The total pre-tax pension deficit of all Group defined benefit retirement plans now stands at £38.6m (2009: £49.3m), a decrease of £10.7m from the prior year end. This deficit is lower than in previous years and I would remind shareholders that all the UK defined benefit schemes with total deficits of £32.9m (2009: £42.8m) are closed to new members and accrual of future service benefits. On a post-tax basis the Group deficit is lower still at £27.7m (2009: £35.3m).

We concluded the latest Triennial Review with the Trustees of the three UK pension schemes as at 1 April 2009. Pension cash flows in the next three years will be £1.2m per annum lower than the last three, with £0.5m of potential additional contributions linked to Group cash flow performance. Further work continues to crystallise or pay down liabilities and ongoing administrative costs.

Asbestos litigation

This year the Group carried out an actuarial assessment of potential lifetime product liability claims for a product that included a third party supplied component containing asbestos. Asbestos ceased to be used in our product in 1979 and the business and assets used in making these particular products was disposed of in 1999. The Group has now recognised the actuarial calculated liability and offsetting insurance asset in the Group Balance Sheet. This change in accounting treatment follows the first ever payment in full of a claim by Scapa's insurance carriers of one judgement of US\$0.9m (to three plaintiffs in the Baylor case).

The total number of outstanding claims is now 13,029 (2009: 14,234) of which approximately 12,000 are dormant. Our robust stance and resolve to defend against all claims continues. We do not believe that there will be any financial impact of the claims on the Group other than the continuing costs of defending against those claims for which a provision already exists. Our product liability insurance cover significantly exceeds the assessed lifetime costs of claims.

Taxation

The Group's tax position has been put on a more robust footing in the last three years and now, as expected, the Group pays little or no cash tax as losses are utilised.

Dividends

No dividend has been declared in the current economic circumstances. The recommendation of dividends will stay under review and as Group profit and cash recover, we will consider the scope for making an appropriate distribution to shareholders, being mindful of the Group's other obligations.

The Board

During the year there have been a number of changes to the Executive members of the Board. Calvin O'Connor retired at 31 December 2009 having been succeeded by Heejae Chae as Chief Executive. We would like to thank Calvin for his contribution and the manner in which he has handled the succession process. Steve Lennon has retired as Chief Operating Officer at 31 March 2010 and under the new structure will not be directly replaced. We wish Steve and Calvin a long and happy retirement.

Since the end of the year, Brian Tenner has given the Company notice under his contract of employment expiring on 24 May 2011. Recruitment of a successor as Finance Director is under way and Brian will assist to ensure a smooth transition.

Our staff

We continue to make a number of changes to our senior management teams as we restructure the business around a market focus. We believe that the new structure and team members match the skills and capabilities needed for the next phase of Scapa's development. We are ensuring that we have the most appropriate team to deliver our Vision and Strategy. It is recognised that the unstinting efforts of the whole team of 1,260 people have enabled Scapa to become a stronger and more focused business and we thank them for their support and efforts.

Outlook

The business set out to return to profit, cash generation and revenue growth in the second half and this has been achieved. Scapa is emerging from the challenging economic environment as a stronger and more capable business that will be able to grow profitably and withstand any further economic downturn. We start 2010/11 as a new phase in Scapa's development. We have restructured our business to focus on key markets. Our European and Asian businesses are recovering well and North America is showing early signs of improvement. Cash, profit and growth, in that order, are the key deliverables for the new year.

Business Review

Strategy

Our strategy is to focus on high growth and high margin markets where Scapa has strong competitive positions. The key markets are: Medical, Industrial, Electronics, Consumer and Transport.

We will leverage our extensive technical knowledge and global footprint to increase our share of business with existing Scapa customers, many of whom are market leaders. Our goal is to service all the tape needs of our customers by working in partnership from design and development to supply chain fulfilment.

During the past year, as we emerged from the recession, we have:

- focused on reducing our cost basis to drive profitability and cash generation;
- reorganised the business around a focus on the key markets; and
- strengthened the management team across the organisation.

We are working today to put in place the processes and systems to establish a solid platform that will enable us to deliver our strategy and shareholder value. We have also put in place new leadership teams and management structures to support our focus on our key markets.

Medical

Scapa Medical is a fully integrated, worldwide supplier of customised medical adhesive tapes, component materials and converted products for the medical device, wound care, hospital, transdermal and consumer industries. Our expertise and technical innovations are recognised by our world class customers such as Johnson & Johnson, Smith & Nephew, Covidien and Roche. Our strategy in Medical is to grow further business with our existing customers by providing a total solution for their tape requirements. Beyond strictly technical needs, we will service the supply chain and manufacturing requirements that are becoming increasingly global and complex. We will invest in areas that allow us to add further value and become an integrated partner to our customers.

Industrial

Industrial is the biggest segment of our business and represents a wide range of markets and applications, including solar, construction, foam fabrication, military, printing and graphics, cable wrapping and pipeline. Our product range covers a larger portfolio of product types than virtually any other manufacturer, meeting the requirements for many specialised applications. Given such diversity, we work with our channel partners and distributors to service the large market. Our strategy in Industrial is to leverage our brand and unique product portfolio to satisfy customer specifications, further gaining market share. We will partner with our distributors to efficiently and effectively cover the broad market.

Electronics

The technical tape requirements for the Electronics sector are increasingly demanding, driven by the innovation cycles of the market and global requirements of the customers. Scapa's product portfolio and global footprint make us an ideal partner to service this sector. Our current engagement with global leaders in mobile phones and flat panel displays will enable us to keep pace with the fast changing market requirements. Our strategy is to engage early on future product developments through local presence and support the commercialisation through our global footprint. Most of the customers and supply chain are based in Asia. We have therefore strengthened the management team and enhanced our R&D and manufacturing competence in Asia to put ourselves in the optimum position to serve those customers.

Consumer

Under the brand, Barnier®, Scapa Consumer is the European leader in adhesive tapes for the professional building materials market as well as DIY applications. We sell through Europe's leading specialist retailers such as Saint Gobain Distribution Batiment, Wolseley, Screwfix and Eurobaustoffe, as well as an extensive network of small retailers in Europe. We service the customers through highly sophisticated logistics from our distribution centre based in France to ensure first class service and prompt delivery.

We also sell a broad range of wraps and protection products for the ice hockey market. For more than twenty years, Scapa's Renfrew® brand has become synonymous with tape for hockey players worldwide. We are the official tape for 27 teams in the National Hockey League in North America as well as for Team Canada and Team USA. Our products are sold through major sporting outlets in North America including WalMart, Costco and Canadian Tire.

Our strategy is to leverage our brands to broaden our product offering through our existing distribution channels. We currently service a small portion of the sports tape sold by our customers. We have the product portfolio and expertise to service the full range of the tape category. Our strategy is to focus on better category and portfolio management to expand our market share.

Transport

Scapa Transport is a world leader in the design and manufacture of speciality adhesive films and tapes for automotive production. We are engaged with the OEMs such as PSA and Volkswagen and their supply chain partners. Market product ranges utilize technically innovative materials and high performance adhesive systems to ensure full compliance with the stringent OEM specifications that drive this business and the key global customer requirements. Our strategy is to optimise our operation and supply chain to maximise our profit potential in this demanding market.

Operations

To support Scapa's growth in our defined markets, we have reorganised our manufacturing operations into a global integrated function. The initial focus of this new integrated team is to drive unit cost reductions by improving our operational effectiveness and purchasing management and, also, to focus upon cash generation through more effective working capital management. The team will also focus on ensuring that the operations are capable of scalability to support future growth.

Organisation

We have reorganised the business to focus on key markets. The newly created Global Business Units (GBUs) will drive the strategy and resource requirements for each market. The GBUs will be supported by our global sales and marketing teams and the nine manufacturing sites around the world. We believe this market focus will enable us best to understand the need of the markets and service our customers best.

The success of any strategy depends on the people in the organisation. We have committed significant resources to develop proper management and leadership talent internally. In addition, we have recruited talented enthusiastic people from outside Scapa and the tape industry to complement the dedicated 1,260 employees of Scapa worldwide.

2009/10 Performance

Overview

Sales in 2009/10 grew by £2.7m. The second half was 10% up on the prior period and was in sharp contrast to the first half when sales were 6% down. Underlying sales reflect adverse currency impacts of £12.3m and therefore fell by £9.6m (5.1%). The underlying performance in the first and second halves were a fall of 17% and a rise of 10% respectively. The underlying fall in revenue arose as the impact of the economic downturn continued in Europe and North America throughout the first half. Underlying revenues in Asia grew by 20% year-on-year. The trading profit in the current year of £1.6m is best considered in the context of a £5.8m loss in the second half of last year and a full prior year loss of £1.0m. This represents a significant turnaround and was fundamentally driven by annualised cost reductions of over £11.0m, aided by some volume recovery in Europe in the second half.

Europe

The start of the year saw a continuation of the weak economic activity of the prior year. Underlying revenues and trading profits in the first half were down by £10.9m (18%) and £4.6m respectively. The second half of the year saw the start of a recovery with like-for-like revenue growing double digit in each of the last five months of the year. Second half underlying revenues were ahead £6.6m (14%), reducing the fall in full year underlying revenues to £4.3m (4%). The increased volume in the second half, coupled with the full benefit of cost-cutting measures, gave rise to a trading profit of £2.6m and a full year trading profit of £1.6m.

Market sector growth rates varied throughout the year. Automotive sales recovered well in the second half and closed the year only 2% behind, with 47% growth in the second half. Industrial Assembly was down 5% on the full year but again saw better growth of 14% in the second half. These two sectors represent approximately 57% of our European business. Medical grew 8% year-on-year. Construction and Cable sectors saw continuing weakness although both appear close to bottoming out.

Cost control measures started last year continued through 2009/10. The Bellegarde site in France that had been particularly severely hit by the collapse in the Automotive sector was closed in July 2009. A significant proportion of the remaining production was relocated to sister facilities in France, Italy and Switzerland.

We are now bringing additional focus to high quality revenue growth in key market sectors. We expect 2010/11 to be a year of solid improvement in profit and cash generation in Europe.

North America

The trading environment and revenue profile in North America was similar to Europe in the first half (18% underlying fall). The second half saw a leveling off in sales volumes (a 1% underlying fall) compared to the 14% recovery in Europe. Whilst revenue ended the year down by 11% on an underlying basis in North America, trading profit rose by £0.4m to £2.1m (2009: £1.7m), again as a result of cost-cutting measures in the prior year. The Canadian Dollar once again strengthened significantly by 20% towards parity with the US Dollar reducing the value of trade between the two countries. From a market perspective, Industrial as a whole saw a fall of 12% on an underlying basis with the subsectors of Printing and Graphics and Construction being the hardest hit with falls of 15% and 42% respectively. Medical was down 8% due to lower sales in consumer wound care with a switch away from branded products.

In March 2010 we announced the closure of our small silicon based coating facility in Carlstadt, New Jersey, USA. The facility had been loss-making for a year with no recovery in sight. It is hoped to retain a significant proportion of the site's revenue through production transfers to Windsor, Connecticut and Rorschach, Switzerland. The Carlstadt closure and focus on our key markets should consolidate current performance levels and build a foundation to recapture lost volumes at more attractive margins.

Asia

Our business in Asia continues to grow with year-on-year underlying revenues up by £2.1m (20%). The Asian economies saw a strong return to growth in the second half of this year with Scapa achieving underlying growth of 44% compared to zero growth in the first half. Much of this growth came in low margin cloth business that supported overheads and helped offset £0.1m of adverse foreign exchange movements. Trading profit was therefore flat at £0.9m.

A new managing director for our Asian business has been appointed with a strong background and focus on the electronics industry, a key source of future growth for Scapa.

Corporate

Corporate costs rose by £0.4m to £3.0m (2009: £2.6m) due to recruiting new senior positions within the Corporate office and having two Chief Executive Officers in payment for four months of the year. The Corporate team continued the clean-up of the Group's complex statutory structure and a further nine legal entities have been simplified in preparation for liquidation to reduce the ongoing costs of the Group's historical structure.

Exceptional items

The closure of our facility in Carlstadt, New Jersey, will lead to the loss of 35 jobs. This project has been recorded as an exceptional item in the year ended 31 March 2010 with cash closure costs of £0.3m and non-cash asset impairments and provisions of £1.4m. It excludes any potential receipts arising from disposal of the site itself. The project has a payback of six months in cost savings and the release of working capital. The other exceptional costs include the remainder of the closure costs for the Bellegarde facility and the cost of restructuring the senior management team around our market focus. The above exceptional charges led to an exceptional tax credit of £1.0m with respect to deferred taxation.

Finance costs

Net finance costs increased by £1.3m due to a change in net interest payable of £0.5m, which includes new finance leases, and an increased pension financing charge (£0.8m). The IAS 19 finance charge rose so significantly due to the fall in asset values in the previous year. All else being equal, this charge should fall by around £1.5m next year with the recovery in asset values and lower discount rate as at 31 March 2010 (5.7% compared to 6.4%).

Taxation

The current year tax credit of £2.4m (2009: £20.2 credit) includes £Nil of current tax (2009: £1.5m credit) and £2.4m of deferred tax credit (2009: £18.7m credit). The credit is made up of a normal credit of £1.4m and an exceptional credit of £1.0m. The large prior year exceptional credit was due to the one-off recognition of deferred tax assets in the UK (accumulated losses, accelerated capital allowances and future pension deficit contributions). The Group has further unrecognised overseas deferred tax assets of £2.4m (2009: £2.7m) in respect of accumulated losses.

Cash flow

The Group began the year with net cash after borrowings of £6.8m. During the year the Group utilised £1.9m of cash with an unfavourable translation difference of £0.1m, resulting in year end net cash of £4.8m. This is a creditable result given that it is after £5.8m (2009: £6.3m) of defined benefit pension payments and exceptional cash flows of £5.7m (2009: £2.5m), whilst maintaining a reduced capital expenditure programme of £2.2m (2009: £8.9m). Effective management of working capital led to cash generation of £4.0m (2009: £10.0m). The reorganisational exceptional cash outflows of £4.6m were primarily in respect of the Bellegarde closure. Other exceptional cash flows during the year of £1.1m were in respect of provisions raised in prior years for asbestos litigation and environmental clean-up costs.

The Group will continue to closely manage capital expenditure in the coming year to address the cash constraints necessitated by the economic crisis. Next year's expenditure is anticipated to be an increase of around £1.0m on the current year, contingent on attractive investment opportunities.

Pensions

The IAS 19 pensions deficit has decreased by £10.7m to £38.6m (2009: £49.3m) and now stands at its lowest point in eight years. The three UK defined benefit schemes, which are closed to future accrual, represent the largest portion of the deficit and that balance now stands at £32.9m (2009: £42.8m). The net movement in the UK deficits was the result of increases in asset values (£18.9m) outweighing the growth in total liabilities (£9.0m), the latter being the result of a decrease in the discount rate from 6.4% to 5.7%.

During the year two of the UK schemes reopened for early retirement. As a result, an additional £1.8m was paid in lump sum retirement benefits. This effectively extinguishes this liability permanently and also reduces the risk on benefits that have moved from deferred to pensions in payment. These costs were met by the funds themselves.

The Company concluded the negotiations with the Trustees of all three UK defined benefit pension schemes with respect to contributions for the coming three years. Affordability and a strong sponsoring employer were the key shared objectives and as a result annual recurring contributions for the three years from 1 April 2010 will be reduced by £0.5m per annum. During the three-year period this annual shortfall can be made good if cash flow targets are outperformed with any benefit being shared between the Company (67%) and the pension funds (33%), with the funds' share limited to the cumulative shortfall. At the end of the three-year period contributions revert to their original level and any remaining cumulative deferred contributions are made good. The net impact of the agreement, combined with the completion of the s.75 payments (£0.7m for each of the last three years relating to a disposal in 2007) will be to reduce future cash pension costs each year by up to £1.2m.

As noted above, the Group continues to recognise the deferred tax asset (£10.9m) in respect of future pension deficit reduction payments which gain tax relief at the time of payment (as opposed to accrual). The pension deficit, net of deferred tax, is therefore £27.7m which includes a provision for future administration and PPF Levy costs of £6.6m.

Asbestos litigation

In February 2010 our insurers paid in full US\$0.9m in respect of the Baylor judgement which had been under appeal since June 2007 and was finally decided in favour of the three plaintiffs by the New Jersey Supreme Court in December 2009. This is the first time that a payment has been made on behalf of any Scapa company in respect of any alleged personal injury resulting from exposure to products manufactured in the years up to 1979. Following this payment by our insurers, the Group has undertaken an actuarial and legal review of the probabilistic outcome of all current and future potential claims against Scapa. In parallel, a similar review has been carried out of the Group's product liability insurance.

As a result, the Group has recognised a liability and an equal and opposite insurance asset of £20.3m. In addition, provisions of £7.5m (2009: £8.5m) remain to pay the Group's share of future litigation costs. We have not changed our view that Scapa's products have not been the cause of any alleged personal injury and we therefore continue to adopt the same robust stance with respect to all of the remaining personal injury claims in the USA arising from businesses sold in 1999. During the year 1,223 more plaintiff claims were dismissed and the total now stands at 13,029, a reduction of almost 21,000 since the peak of around 34,000 in 2004. A detailed review of the remaining claims has been carried out. Because Scapa has a record of every paper mill in the USA that bought a Scapa dryer felt, the date of purchase and number of products shipped, and the fact that only very specific employees in the paper mills would have handled or worked near Scapa products, it has been possible to compare various items of claimant data to workplace records and Scapa's data noted above. This suggests that fewer than 1,000 or so of the current claimants may actually have encountered Scapa products.

Unlike other companies' products, the general population had no exposure to Scapa's products and therefore the population at risk is both very small and very well defined.

The Group continues to maintain a restricted deposit of US\$10.0m (the 'Waycross deposit') in respect of the 1999 sale agreement with J M Voith AG. The deposit is restricted until 31 December 2011 at which point it will become available to fund Scapa's share of ongoing defence costs.

Shareholder funds

The combined result of the loss after tax for the year of £2.8m and the unfavourable currency impact on overseas asset values of £0.7m, offset by the actuarial gain net of deferred tax (£6.1m) and other items (£0.4m), is a £3.0m increase in shareholder funds to £65.3m (2009: £62.3m).

Performance summary

Scapa's revenues are growing again and trading profitability has been restored. At the same time, the UK pensions deficit and cash drain is becoming more manageable whilst the shadow of asbestos is crystallising into a much less significant challenge. Good progress in trading results, pensions and asbestos are three solid foundations on which to build a growing and sustainable business.

Consolidated Income Statement
For the year ended 31 March 2010

		Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
All on continuing operations	note		
Revenue	2	176.7	174.0
Operating loss	2	(1.5)	(6.9)
Trading profit/(loss)*		1.6	(1.0)
Exceptional items and movements in exceptional provisions	4	(3.1)	(5.9)
Operating loss		(1.5)	(6.9)
Interest payable		(0.3)	(0.1)
Interest receivable		0.1	0.4
		(0.2)	0.3
Discount on provisions		(0.4)	(0.4)
IAS 19 finance costs		(3.1)	(2.3)
Net finance costs		(3.7)	(2.4)
Loss on ordinary activities before tax		(5.2)	(9.3)
Taxation on operating activities		1.4	1.6
Taxation on exceptional losses		1.0	1.8
Exceptional recognition of previously unrecognised deferred tax assets		–	16.8
Taxation credit		2.4	20.2
(Loss)/profit for the year		(2.8)	10.9
Weighted average number of shares	6	144.8	144.8
Basic and diluted (loss)/earnings per share (p)	6	(1.9)	7.5

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2010

		Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
All on continuing operations			
(Loss)/profit for the year		(2.8)	10.9
Exchange differences on translating foreign operations		(0.7)	17.1
Actuarial gains/(losses)		8.5	(8.5)
Deferred tax on actuarial gains/(losses)		(2.4)	2.4
Deferred tax on foreign exchange		0.4	–
Total recognised income for the year		3.0	21.9

* Operating profit/(loss) before exceptional items and movements in exceptional provisions.

Consolidated Balance Sheet

As at 31 March 2010

	note	31 March 2010 £m	31 March 2009 £m
Assets			
Non-current assets			
Goodwill		12.7	13.5
Property, plant and equipment		41.6	44.8
Deferred tax asset		30.7	30.2
Other receivables		19.4	–
Other non-current asset investments		6.6	7.0
		111.0	95.5
Current assets			
Inventory		21.0	23.0
Trade and other receivables		36.8	37.2
Current tax asset		0.8	1.4
Cash and cash equivalents	7	9.4	7.5
		68.0	69.1
Liabilities			
Current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities		(3.9)	(0.4)
– Derivative financial instruments		–	(0.1)
Trade and other payables		(30.6)	(29.6)
Current tax liabilities		(0.2)	–
Provisions		(3.9)	(5.6)
		(38.6)	(35.7)
Net current assets		29.4	33.4
Non-current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities		(0.7)	(0.3)
Trade and other payables		(1.5)	(1.9)
Deferred tax liabilities		(4.8)	(3.9)
Non-current tax liabilities		(1.3)	(1.3)
Retirement benefit obligations		(38.6)	(49.3)
Provisions		(28.2)	(9.9)
		(75.1)	(66.6)
Net assets		65.3	62.3
Shareholders' equity			
Ordinary shares		7.2	7.2
Retained earnings		38.5	35.2
Translation reserve		19.6	19.9
Total shareholders' equity		65.3	62.3

Statement of Changes in Equity
For the year ended 31 March 2010

	Share capital £m	Translation reserves £m	Retained earnings £m	Total equity £m
Currency translation differences	7.2	2.8	31.2	41.2
Actuarial loss on pension schemes	–	17.1	–	17.1
Deferred tax on actuarial loss	–	–	(8.5)	(8.5)
Deferred tax on actuarial loss	–	–	2.4	2.4
Net income recognised directly in equity	–	17.1	(6.1)	11.0
Profit for the period	–	–	10.9	10.9
Total comprehensive income	–	17.1	4.8	21.9
Dividends paid relating to 2007/08	–	–	(1.1)	(1.1)
Employee share option scheme				
– value of employee services	–	–	0.3	0.3
Balance at 31 March 2009	7.2	19.9	35.2	62.3
Currency translation differences	–	(0.7)	–	(0.7)
Actuarial gain on pension schemes	–	–	8.5	8.5
Deferred tax on actuarial gain	–	–	(2.4)	(2.4)
Deferred tax on foreign exchange	–	0.4	–	0.4
Net income recognised directly in equity	–	(0.3)	6.1	5.8
Loss for the period	–	–	(2.8)	(2.8)
Total comprehensive income	–	(0.3)	3.3	3.0
Balance at 31 March 2010	7.2	19.6	38.5	65.3

Consolidated Cash Flow Statement
For the year ended 31 March 2010

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
All on continuing operations		
Cash flows from operating activities		
Net cash flow (used in)/from operations	(0.5)	1.4
Cash generated from operations before exceptional items	5.2	3.9
Cash outflows from exceptional items	(5.7)	(2.5)
Net cash flow (used in)/from operations	(0.5)	1.4
Net interest (paid)/received	(0.2)	0.3
Income tax received/(paid)	0.9	(1.4)
Net cash generated from operating activities	0.2	0.3
Cash flows used in investing activities		
Purchase of property, plant and equipment	(2.2)	(8.9)
Proceeds from sale of property, plant and equipment	0.1	–
Net cash used in investing activities	(2.1)	(8.9)
Cash flows from/(used in) financing activities		
Dividend paid to shareholders	–	(1.1)
Increase in borrowings	2.7	–
Repayment of borrowings	(0.2)	(0.2)
Net cash from/(used in) financing activities	2.5	(1.3)
Net increase/(decrease) in cash and cash equivalents	0.6	(9.9)
Cash and cash equivalents at beginning of the year	7.2	15.3
Exchange gains on cash and cash equivalents	–	1.8
Cash and cash equivalents at end of the year	7.8	7.2

Notes on the Accounts

1. Basis of Preparation

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 March 2010 or 2009. The preliminary results of Scapa Group plc ("the Group") for the year ended 31 March 2010 have been extracted from audited consolidated financial statements which have not yet been delivered to the Registrar of Companies. The auditors have reported on the Group's statutory accounts for the year ended 31 March 2010. The report does not contain a statement under either section 498(2) or section 498(3) of the Companies Act 2006. The financial information for the year ended 31 December 2008 is derived from the statutory accounts for that year.

The consolidated financial statements for the year ended 31 March 2010 have been prepared on the basis of the IFRS accounting policies set out in the Group's Annual Report and Financial Statements for the year ended 31 March 2009, with the exception of the adoption of IAS 1 (revised), 'Presentation of financial statements' and IFRS 8, 'Operating segments'. These standards impact disclosure only.

2. Segmental reporting

Primary Reporting Format – Geographical Segments

The Group operates in three main geographical areas: Europe, North America and Asia. All inter-segment transactions are made on an arms-length basis. The home country of the Company is the United Kingdom.

The chief operating decision maker relies primarily on turnover and trading profit to assess the performance of the Group and make decisions about resources to be allocated to the segment. Trading profit is reconciled to operating profit on the face of the income statement.

The Board reviews the performance of the business using information presented at consistent exchange rates. The prior year results have been restated as shown on the following page.

Segment results

The segment results for the year ended 31 March 2010 are as follows:

	Europe £m	N America £m	Asia £m	Eliminations £m	Corporate £m	Group £m
External sales	101.1	63.1	12.5	–	–	176.7
Inter-segment sales	4.2	2.8	3.1	(10.1)	–	–
Total revenue	105.3	65.9	15.6	(10.1)	–	176.7
Trading profit/(loss)	1.6	2.1	0.9	–	(3.0)	1.6
Exceptional items and movements in exceptional provisions	(1.1)	(2.0)	–	–	–	(3.1)
Operating profit/(loss)	0.5	0.1	0.9	–	(3.0)	(1.5)
Net finance costs						(3.7)
Loss on ordinary activities before taxation						(5.2)
Taxation on operating activities						1.4
Taxation on exceptional losses						1.0
Taxation credit						2.4
Loss for the year						(2.8)

Sales are allocated above based on the country in which the order is received. All revenue relates to the sale of goods. The sales analysis based on the location of the customer is as follows:

	Europe £m	N America £m	Other £m	Corporate £m	Group £m
External sales	91.0	59.6	26.1	–	176.7

Other segment items included within the Income Statement based on location of assets are as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Depreciation	2.5	2.3	0.1	–	4.9

2. Segmental reporting continued

The segment results for the year ended 31 March 2009 are as follows:

	Europe £m	N America £m	Asia £m	Eliminations £m	Corporate £m	Group £m
External sales	100.2	64.3	9.5	–	–	174.0
Inter-segment sales	5.6	2.6	1.2	(9.4)	–	–
Total revenue	105.8	66.9	10.7	(9.4)	–	174.0
Trading (loss)/profit	(0.8)	1.5	0.9	–	(2.6)	(1.0)
Exceptional items and movements in exceptional provisions	(5.0)	(0.2)	–	–	(0.7)	(5.9)
Operating (loss)/profit	(5.8)	1.3	0.9	–	(3.3)	(6.9)
Net finance costs						(2.4)
Loss on ordinary activities before taxation						(9.3)
Taxation on operating activities						1.6
Taxation on exceptional losses						1.8
Exceptional recognition of previously unrecognised deferred tax assets						16.8
Taxation credit						20.2
Profit for the year						10.9

The Board reviews the performance of the business using information presented at consistent exchange rates. The prior year results have been restated using this year's exchange rates as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
External sales	100.2	64.3	9.5	–	174.0
Foreign exchange	5.2	6.2	0.9	–	12.3
Underlying external sales	105.4	70.5	10.4	–	186.3
Trading profit	(0.8)	1.5	0.9	(2.6)	(1.0)
Foreign exchange	0.1	0.2	0.1	–	0.4
Underlying trading profit	(0.7)	1.7	1.0	(2.6)	(0.6)

Sales are allocated above based on the country in which the order is received. All revenue relates to the sale of goods. The sales analysis based on the location of the customer is as follows:

	Europe £m	N America £m	Other £m	Corporate £m	Group £m
External sales	90.2	60.5	23.3	–	174.0

Other segment items included within the Income Statement based on location of assets are as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Depreciation	3.1	1.6	0.1	–	4.8

3. Segment assets and liabilities

The segment assets and liabilities at 31 March 2010 and capital expenditure for the year then ended are as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Segment assets	58.5	55.9	6.1	27.0	147.5
Segment liabilities	(49.0)	(32.3)	(1.9)	(24.2)	(107.4)
Capital expenditure	1.2	0.9	0.1	–	2.2

3. Segment assets and liabilities continued

The segment assets and liabilities at 31 March 2009 and capital expenditure for the year then ended were as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Segment assets	63.7	41.4	5.8	22.1	133.0
Segment liabilities	(52.1)	(9.0)	(1.0)	(35.0)	(97.1)
Capital expenditure	3.7	5.1	0.3	0.2	9.3

The unallocated assets and liabilities relate solely to taxation. The tax assets and liabilities are £31.5m (2009: £31.6m) and £6.3m (2009: £5.2m) respectively.

4. Exceptional items

	2010 £m	2009 £m
Operating Expenses:		
Business disposals	–	0.7
Reorganisation costs and exceptional provision movements	2.0	4.3
Impairment of plant and equipment	1.1	0.9
Recognition of asbestos claims liability	20.3	–
	23.4	5.9
Operating Income:		
Recognition of asbestos insurance receivable	(20.3)	–
	3.1	5.9

In the year ended 31 March 2010 exceptional costs totalled £3.1m, split between Europe (£1.1m) and North America (£2.0m).

Of this total, £1.7m relates to the closure of the Carlstadt site in the USA. The exceptional cost includes the impairment of assets at the site of £1.0m and redundancy and other associated costs of £0.7m. In addition to the Carlstadt closure, the Group reorganised its management around markets at the end of the year and incurred costs of £0.7m.

The remaining £0.7m of exceptional cost relates to the final closure of Bellegarde and the transfer of business within the Group. In accordance with Accounting Standards, these costs could not be provided at 31 March 2009.

In March 2010, following an unsuccessful appeal to the New Jersey Supreme Court, a judgement of \$0.9m was paid in full by Scapa's insurers. Therefore it became appropriate to recognise an estimated liability of £20.3m covering the next 43 years and an equal asset of £20.3m for the insurance receivable (see note 8).

5. Impairment of assets

Year ended 31 March 2010

As disclosed in Note 4 to the accounts, fixed assets with a value of £1.0m were impaired in the year as part of the Carlstadt site closure and a £0.1m impairment for the land and buildings in Bellegarde.

The carrying value of the Group's goodwill and other tangible assets have been reassessed at 31 March 2010 for any evidence that the carrying values may have been impaired. This review of all assets was carried out because of the general deterioration in the economic environment in which the Group operates.

5. Impairment of assets continued

The recoverable amount has been determined on a value-in-use basis on each cash generating unit using the management approved 12-month forecasts for each cash generating unit. The base 12-month projection is inflated by 3% up to year 5 and then kept constant for years 6-10. These cash flows are then discounted at the Groups weighted cost of capital rate of 11.0% and adjusted for specific risk factors that take into account the sensitivities of the projection (these risk ratings vary from unit to unit from 10-20% reflecting specific sensitivities). Terminal values are assumed in the calculations.

The review indicates that the current carrying values are fully supported by the associated future discounted cash flows and hence no additional impairments are required.

Year ended 31 March 2009

Asset impairments in the year ended 31 March 2009 all related to the closure of Bellegarde (£0.9m).

6. (Loss)/earnings per share

Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
(Loss)/profit attributable to equity holders of the Company (£m)	(2.8)	10.9
Weighted average number of ordinary shares in issue (m)	144.8	144.8
Basic and diluted (loss)/earnings per share (p)	(1.9)	7.5

Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted (loss)/earnings per share has been calculated on share options in existence at 31 March 2010. The calculated basic and diluted (loss)/earnings per share are the same.

Headline (before exceptional items)	2010	2009
(Loss)/profit attributable to equity holders of the Company (£m)	(2.8)	10.9
Adjusted for:		
Exceptional items (£m)	3.1	5.9
Exceptional element of tax credit (£m)	(1.0)	(18.6)
Adjusted loss attributable to equity holders of the Company (£m)	(0.7)	(1.8)
Weighted average number of ordinary shares in issue (m)	144.8	144.8
Headline and diluted headline loss per share (p)	(0.5)	(1.2)

7. Reconciliation of operating loss to operating cash flow, and reconciliation of net cash

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
All on continuing operations		
Operating loss	(1.5)	(6.9)
Adjustments for:		
Depreciation	4.9	4.8
Loss on disposal of fixed assets	–	0.1
Impairment of tangible fixed assets	1.1	0.9
Pensions payments in excess of charge	(5.0)	(5.8)
Movement in fair value of financial instruments	(0.1)	(0.3)
Share options charge	–	0.3
Grant income released	(0.1)	(0.1)
Changes in working capital:		
– Inventories	1.8	3.9
– Trade debtors	1.2	8.9
– Trade creditors	1.0	(2.8)
Changes in trading working capital	4.0	10.0
Other debtors	(0.1)	1.5
Other creditors	(0.2)	(5.6)
Net movement in environmental provisions	(0.2)	(0.2)
Net movement in reorganisation provisions	(2.4)	3.4
Net movement in asbestos litigation cost provisions	(0.9)	(0.7)
Net movement in asbestos litigation claims provisions	20.3	–
Net movement in asbestos insurance receivable	(20.3)	–
Cash (used in)/generated from operations	(0.5)	1.4
Cash generated from operations before exceptional items	5.2	3.9
Cash outflows from exceptional items	(5.7)	(2.5)
Cash (used in)/generated from operations	(0.5)	1.4

Analysis of cash and cash equivalents and borrowings

	At 1 April 2009 £m	Cash flow £m	Exchange movement £m	At 31 March 2010 £m
Cash and cash equivalents	7.5	1.9	–	9.4
Overdrafts	(0.3)	(1.3)	–	(1.6)
	7.2	0.6	–	7.8
Borrowings within one year	–	(2.2)	(0.1)	(2.3)
Borrowings after more than one year	(0.4)	(0.3)	–	(0.7)
	(0.4)	(2.5)	(0.1)	(3.0)
Total	6.8	(1.9)	(0.1)	4.8

Reconciliation of net cash flow to movement in net cash

	2010 £m	2009 £m
Increase/(decrease) in cash and cash equivalents		
Increase/(decrease) in net cash and cash equivalents in the year	0.6	(9.9)
Cash (inflow)/outflow from (increase)/decrease in loan finance	(2.5)	0.2
Change in net cash resulting from cash flows	(1.9)	(9.7)
Translation differences	(0.1)	1.7
Movement in net cash	(2.0)	(8.0)
Net cash after borrowings at 1 April	6.8	14.8
Net cash after borrowings at 31 March	4.8	6.8

8. Asbestos litigation claims

Under its own name, but more often under its previous name of Scapa Dryer Fabrics Inc ('SDFI'), Scapa Waycross Inc (Waycross) is one of many co-defendants in numerous lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to products previously manufactured which contained asbestos. Waycross is a dormant subsidiary of the Group's American sub-group. Waycross did not manufacture asbestos as such. Rather, asbestos containing thread manufactured and sold by other third party companies, was a component of certain Waycross products. The variety of asbestos in question is known as chrysotile (more commonly known as white asbestos) and is recognized as being much less malignant than amosite (brown) and crocidolite (blue) asbestos. The use of asbestos was discontinued by SDFI in 1979 and the last asbestos containing dryer felt was sold in 1980. The plaintiffs, who are mostly former paper mill employees or their dependants, allege that asbestos fibres were released when they cleaned the dryer felts by blowing compressed air across them. It is also alleged that exposure occurred during installation and removal of dryer felts, during routine maintenance, and even as a result of normal wear and tear. From time to time plaintiffs' lawyers mistakenly issue proceedings against Scapa entities other than Waycross. The business and associated assets were sold to Voith AG as part of the disposal of Scapa's paper machine clothing, paper rolls and industrial rolls businesses in 1999.

The asbestos used by SDFI was encapsulated within the dryer felt products and used in such a manner in the paper mills that causes Scapa to believe, based on tests conducted on its behalf together with expert medical and industrial hygiene opinion, that the products were safe. In most cases the plaintiffs are unable to demonstrate that they have suffered any injury as a result of exposure to SDFI's products or that any injuries which have occurred were as a result of exposure to SDFI's products. Scapa is actively monitoring the conduct and effect of SDFI's current and expected asbestos litigation, including the most effective presentation of its 'safe product' defence, and based on this defence intends to continue to resist all asbestos claims. Approximately 21,000 claims against SDFI/Waycross have been dismissed before trial over the last 17 years. Waycross is currently named as a defendant in 932 cases involving approximately 13,029 claims, of which approximately 12,000 are considered to be dormant.

	31 March 2010	31 March 2009	31 March 2008	31 March 2007	31 March 2006
Opening claims	14,234	18,360	19,313	32,607	33,878
New claims	21	19	15	28	106
Dismissals	(1,223)	(4,145)	(968)	(13,322)	(1,377)
Judgements	(3)	–	–	–	–
Closing claims	13,029	14,234	18,360	19,313	32,607

Despite the large number of claims brought against SDFI, it has only ever had a final judgement, after appeals, in just one case in favour of three claimants. In March 2010, following an unsuccessful appeal to the New Jersey Supreme Court, a judgement for \$0.9m in favour of three plaintiffs was paid in full by Scapa's insurers. Therefore, during the year ended 31 March 2010, the Company reviewed Waycross's history and experience with asbestos-related litigation and determined that it had become possible to make a reasonable estimate of its total liability for pending and future asbestos claims, and to make an appropriate provision in respect thereof. This determination was based upon an analysis of developments in asbestos litigation, including the substantial and continuing decline in the filing of non-malignancy claims against Waycross, the establishment in many jurisdictions of inactive or deferral dockets for such claims, the decreased value of non-malignancy claims because of changes in the legal and judicial treatment of such claims, and the increasing focus of the US asbestos plaintiffs' bar upon malignancy claims, primarily those involving mesothelioma – a cancer with a known historical and predictable future annual incidence rate. The annual number of claims filed against Waycross/SDFI has been declining, the proportion of mesothelioma claims has increased, and Waycross's defence of these cases is likely to have a significant impact on its annual defence costs.

Accordingly, the Company and Waycross retained Gnarus Advisors LLC to provide a range of estimates of Waycross's total liability for pending and future asbestos claims, from which the Company was able to assess the appropriate level of provision to be made. Gnarus is a respected expert in performing complex calculations such as this. Gnarus has been involved in many asbestos-related valuations of current and future liabilities, and its valuation methodologies have been accepted by numerous courts in the United States. Gnarus themselves base their findings on a methodology known as the 'Nicholson' study which is the standard approach used by most experts and has been accepted by numerous courts. The Nicholson methodology is based on risk equations, exposed population estimates, mortality rates and other demographic statistics.

8. Asbestos litigation claims continued

The key assumptions then made in assessing the appropriate level of provision for Scapa include:-

- the number of people likely to have been exposed to Waycross/SDFI's products – almost exclusively paper mill workers who were in active employment prior to 1980;
- the rate of claim filing (also known as 'propensity to sue');
- the rate of successful dismissal of claims filed;
- the average amount to pay in respect of successful claims;
- Waycross's pending cases by type of disease claimed; and
- the future trend of legal costs (assumed to increase at 3% p.a.).

The first of these key assumptions is very favourable for Scapa. Unlike many other companies who sold asbestos containing products to a wide and diverse market that may have included the general population as a whole, Scapa's products were sold to and used exclusively in a very narrow and well defined set of circumstances. Scapa also has a full record of the customers, location and dates of sale of the product in question. The result is a very narrow relevant population and a very high evidential hurdle to overcome before even being able to pursue a valid claim.

Lifetime asbestos indemnity provision and associated insurance receivable

	£m
Discounted pre-tax provision	20.3
Insurance asset	(20.3)
Net liability	–
Provision for future legal costs	7.5

The provision is discounted using a risk free rate of 4.6%. The provision covers the time horizon to 2053 which is the date when the Nicholson model predicts the last incidence of mesothelioma from any source at all in the USA.

As in any long term projection of this nature (43 year estimation period) there remains significant uncertainty associated with the future level of asbestos claims and the costs arising out of related litigation. There can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events.

Following the initiation of asbestos litigation against Waycross and Group companies in the early 1990's, strenuous efforts were made to identify all available primary and excess insurance coverage and carriers. There are various primary carriers and a number of excess/umbrella coverage carriers, all of which were put on notice of the litigation. Dickstein Shapiro LLP, a prominent Washington DC law firm with expertise in the field of evaluating insurance coverage and the likelihood of recovery for asbestos-related claims has been retained to evaluate the insurance coverage for asbestos-related claims. As a result of that evaluation the Company has established the existence of insurance coverage to a level of certainty sufficient to recognise an insurance asset equal to the provision. It should be noted that there is a residual level of uncertainty around any insurance policy until such time it is actually drawn down upon and therefore the actual value of all accessible insurance may differ from the evaluation above. Given that the value of the insurance policies is significantly in excess of any reasonable range of claims outcomes, the Board's view is that this will not lead to any material financial impact on Scapa. In addition, the Board is of the view that any potential asbestos liabilities are ring-fenced within the non-trading sub-group of the North American business. This view is based on the principle of American law that a shareholder (including a parent corporation) is generally not liable for a separate legal entity's obligations.

Asbestos litigation costs

Under the terms of a cost-sharing agreement entered into in 1996 the Group's primary insurance carriers provided 50% of the defence costs associated with the asbestos-related claims. This share was renegotiated to 75% with effect from 1 April 2006. The litigation provision of £7.5m represents Scapa's forecast share of defence costs over the lifetime of this issue and is consistent with the basis of calculation of the indemnity provision.