

26 May 2004

Scapa Group plc

Scapa Group plc, the global supplier of technical tapes and cable compounds, today announces the preliminary results for the year ended 31 March 2004.

Highlights

- Turnover up 0.5% to £187.9 million (2002/03 £187.0 million) despite subdued market conditions in Europe
- Headline* profit before tax £4.1 million (2002/03 £3.7 million)
- Headline* operating profit up 30% to £6.0 million (2002/03 £4.6 million)
- Resumption of dividend payments with final dividend of 0.3p per share (2002/03 full year dividend of 0.6p)
- Net debt reduced by £2 million; year-end gearing 31%
- Loss after tax £4.1 million (2002/03 £21.5 million)
- Successful completion of European site consolidation programme

*figures shown here and elsewhere in the Preliminary Announcement as “headline” exclude operating exceptional charges of £11.7 million (2002/03 £17.1 million) and goodwill amortisation of £1.5 million (2002/3 £2.2 million) and where applicable the non-operating exceptional profit on disposal of fixed assets of £0.9 million (2002/03 nil)

Commenting on the results, Chairman Dr Keith Hopkins said:

“Scapa delivered a solid performance in 2003/04. In Europe, the major reorganisation of our business was completed and resulted in a return to profits in the final quarter. Once again our North American operations turned in increased profits and margins. Sales in Asia showed strong growth and produced record profits in this region.

With the completion of our European reorganisation, we are focusing on growing sales throughout our business from our lower and more efficient cost base and continuing innovation in new products. The new financial year has started well and although there are signs of increased raw material pricing pressure, we expect to make further progress.”

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A full copy of this announcement can be found at www.scapa.com

Chairman's Statement

Overview

Scapa delivered a solid performance in 2003/04. In Europe, the major reorganisation of our business was completed and resulted in a return to profits in the final quarter. Once again our North American operations turned in increased profits and margins. Sales in Asia showed strong growth and produced record profits in this region.

Overall Group sales in 2003/04 of £187.9 million were marginally ahead of last year (£187.0 million). Headline operating profit before goodwill amortisation and exceptional items rose 30% to £6.0 million (2002/03 £4.6 million). With goodwill amortisation of £1.5 million (2002/03 £2.2 million) and operating exceptional charges of £11.7 million (2002/03 £17.1 million), total operating loss was £7.2 million (2002/03 £14.7 million loss). Loss after tax was £4.1 million (2002/03 loss of £21.5 million) and loss per share was 2.8p per share (2002/03 loss of 14.8p per share).

Cash and Borrowings

Investment in our new factories in Europe formed the largest part of our capital spend of £6.9 million compared to depreciation of £7.3 million. Despite the final payment of \$6.5 million (£4.2 million) to J.M. Voith A.G. which we reported previously, good operational cash flow aided by the disposal of surplus properties (£3.4 million) and UK Regional Selective Assistance grants (£1.6 million) led to a reduction in net debt of £2.0 million. At the year end gearing was 31% and headline interest cover a comfortable 15 times. In April 2004 we completed the renewal of our bank facilities, with a three year £30 million syndicated loan agreement with five major banks led by HSBC Bank plc and Allied Irish Banks.

Dividend

The capital reduction programme approved by shareholders at our July 2003 AGM was completed in February 2004 and eliminated the deficit in distributable reserves which prevented us from declaring dividends. We are pleased, therefore to be able to recommend the payment of a final dividend of 0.3 pence per share (2002/03 full year dividend of 0.6p).

Litigation

After more than 10 years of successfully defending personal injury claims arising from alleged exposure to asbestos in the USA, relating to a discontinued business we were all shocked by the wholly unexpected jury verdict in Baltimore, Maryland, USA in October 2003 awarding \$3.5 million (£1.9 million) to the plaintiff. This follows our acquittal or dismissal from almost 600 actions including 254 since the adverse judgement. The verdict is now subject to appeal but this process is likely to take at least twelve months. The Board has completed its regular review of the provision established for defending these personal injury claims. We have recognised that it is now likely to be longer before we see a significant reduction in these defence costs and accordingly have decided to provide for a further £6.2 million.

Employees

Scapa has undergone a considerable transformation in recent years and, on behalf of the Board, I would like to thank all of our staff for their dedication, commitment and determination, despite the difficult challenges.

Outlook

With the completion of our European reorganisation we are focusing on growth in sales throughout our business from our lower and more efficient cost base and continuing innovation in new products. The new financial year has started well and although there are signs of increased raw material pricing pressure, we expect to make further progress.

Operating Review

2003/04 Performance

Overview

2003 saw many challenges to the global economy and, although North America did see some market recovery in the second half of the year, economic activity in Continental Europe remained subdued throughout the period. 2003 has also seen some significant movements in exchange rates, with the US Dollar weakening significantly, which had an impact on Group results upon translation into sterling. Our programme of significant European cost reduction, combined with the modernisation of facilities, delivered benefits in 2003 and the major site consolidation project has now been completed on schedule. Scapa's track record in maintaining robust working capital controls again delivered an excellent performance in 2003/04, resulting in a strong operating cash inflow from operating activities.

Global sales in 2003/04 of £187.9 million were marginally ahead of 2002/03 (£187.0 million). However, with the successful completion of the European site consolidation programme, combined with an improved product mix due to a number of successful new product introductions, headline operating profit has improved by 30 % from £4.6 million in 2002/03 to £6.0 million in 2003/04. As announced with the interim results in November 2003, the Group has adopted the new pension accounting standard FRS17 in 2003/04 and prior year figures have been restated to reflect this change in accounting policy. These results are in line with the trading statement issued on the 30 January 2004 with headline profit before tax of £4.1 million. Headline earnings per share were 3.6p compared to 1.5p in the same period last year.

Scapa North America Review

Scapa North America saw a strong final quarter in trading after experiencing mixed trading conditions during the first half of 2003/04. As a consequence, underlying sales grew by 7.5% in the second half of the financial year compared to the second half of 2002/03. Overall annual sales were up 3% at constant exchange rates to £64.7 million delivering an improved return on sales of 11.0% in 2003/04 (10.5% 2002/03). Operating profit before goodwill amortisation and exceptional items was £7.1 million in 2003/04 (£7.0 million 2002/03).

We continued to invest in improved facilities across the North American manufacturing sites during the year. Significant improvements to coating lines in our Windsor and Carlstadt facilities have been completed and the Carlstadt site is now our global centre for high performance silicone tape production. Additional highly automated converting capacity has been installed at our Canadian facility to consolidate our market leadership positions in the hockey and sports athletic markets.

Overall cost control in North America was good, despite the difficulties in demand forecasting due to the relatively short term nature of our order book and the growth in customer demand in the final quarter of the financial year. The North American team maintained an excellent on time delivery performance throughout the year (in excess of 92% at all sites) helping us to ensure that customer service was maintained at an excellent level. Cash control has once again been a successful focus for Scapa North America during the year, and the team has performed well with a further improvement in trading working capital as a percentage of sales compared to last year.

The immediate prospects for Scapa North America remain good although the continued weakness of the US Dollar may have a negative impact when North American profits are translated into sterling. There are some concerns regarding raw material pricing trends, but the pipeline of new product development is encouraging. Our recent strengthening of the research and development teams with further high calibre personnel will help to improve the time to market for new products in the coming years. Sales growth will be assisted in 2004/05 by the new products recently introduced across a number of market sectors.

Scapa Europe Review

Scapa Europe has now successfully completed its major site consolidation and facilities modernisation programme. Over the past three years this has involved the consolidation of eight facilities and the establishment of a brand-new solvent-free facility in Ashton, Tameside in Greater Manchester, principally

designed to satisfy the growing requirements for Megolon™ halogen free, fire retardant cable compounds. This now creates a stable platform for the European business to grow sales and profits.

In 2003/04 trading conditions remained difficult in most markets throughout the year. Sales at £118.3 million were ahead of 2002/03 (£116.8 million) due to the benefits of currency translation due to the strength of the Euro. However, there was a significant recovery in the European cable market in the second half of the year, and despite a slight delay in the final commissioning of our new Megolon™ manufacturing facility, the Group is well placed to take advantage of this upturn in demand with the new plant now fully operational. Scapa Europe reported an operating loss before goodwill amortisation and exceptional items of £1.5 million (2002/03 loss of £2.0 million). The European team implemented a revised organisation structure in the final quarter of the financial year, which reduced the number of supervisory management positions and introduced a “Customer Now” programme to increase customer focus throughout the European team, now that the site consolidation programme has been completed.

Scapa Europe has again delivered an excellent operating cash flow performance with the consolidated European computer system (SAP) helping to maintain excellent working capital controls. In addition, property in the UK that was no longer required following the site consolidation programme was sold for £3.4 million and government grants to support the establishment of the new facilities at Dunstable, Bedfordshire and Ashton, Tameside of £1.6 million were received during the year.

Although there is little sign of any sustained improvement in trading conditions in Continental Europe, the cable and medical markets continue to offer good growth prospects. There are some concerns regarding raw material pricing pressure with the continued strengthening of oil and some commodity prices. The research and development team is currently being strengthened further and is now consolidated at three main research facilities across Europe. This will help to build the pipeline of new product developments in the future.

Scapa Asia Review

Scapa Asia has achieved a significant improvement in performance with a full year operating profit for the first time. Sales have grown by 29% to £4.9 million (2002/03 £3.8 million) and operating profit of £0.4 million (2002/03 operating loss of £0.4 million). This represents the culmination of the solid foundations laid since Scapa Asia was established in 1999 and is a first class achievement by the expanded Asian management team.

In October 2003 Scapa established a wholly owned subsidiary in Malaysia – Scapa Tapes Malaysia Sdn Bhd and moved to a new location capable of supporting the significant expansion in sales in South East Asia. In addition, we have expanded the number of sales offices in China and further strengthened the sales team to take advantage of the rapidly increasing demand for Scapa projects in this vibrant market. The successful introduction of new products, particularly in the industrial sector, combined with the expansion of our Korean manufacturing facility helped improve underlying margins.

The immediate prospects for Scapa Asia remain good. The market, especially in China and South East Asia, remains extremely buoyant and by focusing on specific opportunities Scapa has been able to make considerable progress in 2003/04. This will be supported by further capital investment over the next five years to establish an even stronger Asian manufacturing base close to our Asian customer base.

Discontinued Businesses

The final payment of \$6.5 million (£4.2 million) was made to J.M. Voith AG on 31 October 2003 to complete the resolution of a number of issues relating to pensions and environmental matters, previously reported to shareholders, subsequent to the disposal of the paper machine clothing business in 1999.

As shareholders are aware, the Group continues to be involved in a number of cases in the USA arising from the alleged exposure of paper mill workers to asbestos in a product that was part of the business sold to J.M.Voith AG in July 1999. Prior to 2003 all the cases against the company had either been won, dismissed or abandoned before going to court. However, in October 2003 a jury in Baltimore, Maryland, USA returned an award of up to US\$3.5 million (£1.9 million) against Scapa Dryer Fabrics Inc. This wholly unexpected judgement has been appealed and this process is now underway, although we are advised that the appeal

conclusions may not be reached until mid to late 2005. This award has already been reduced by the court to US\$3 million (£1.6 million) because the plaintiff failed to present sufficient evidence on the loss of consortium claim.

As reported in the 2003 Annual Report and Accounts Scapa was involved in a further case in Louisiana. This non jury trial covered 8 plaintiffs each alleging maximum damages of US\$50,000 (£27,000 approximately) (the jurisdictional cap for non jury trials). To date no verdict or judgement has been issued by the court. However, since this date Scapa has been completely dismissed from four subsequent trial flights covering 40 plaintiffs.

Scapa has continued to be dismissed from many other cases during 2003/04. Over approximately the last two years Scapa has now been dismissed from 111 cases covering approximately 573 plaintiffs. We shall continue to defend vigorously the outstanding claims and the Board has decided to take a further provision of £6.2 million to cover the costs of defending these claims. It is important to note that no Scapa Group company or any of our insurance carriers has admitted any liability, nor made any payment to any plaintiff under our policies. The Directors believe, having taken advice, that it is unlikely that significant uninsured liabilities will arise from this litigation. As a result of the firm line taken by the Board our insurance coverage remains intact.

Market Sector Review

Medical

Medical supplies hypoallergenic films, tapes and foams for wound management systems and medical disposable devices and represents 10.9% of Group sales

Scapa Medical experienced improved trading in the second half of the year and overall achieved sales growth of 4.6% to £20.4 million in 2003/04 (£19.5 million 2002/03). At constant exchange rates this represents an underlying growth of 12.1% year on year. This excellent performance reflects the close partnerships that have been developed with a number of global healthcare customers in selected sectors. In the second half of 2003/04, a number of new products were launched in both the professional wound care and medical diagnostic device sectors which were well received by our key partners and their major markets. These successes have been built upon well proven key Scapa technologies in substrate design and development, adhesive design, coating and conversion.

The new medical tape facility in Dunstable, Bedfordshire, assisted by grant aid, has now been completed. This incorporates highly flexible medical adhesive coating facilities and a large Class 10,000 clean room. This new facility enables Scapa to offer increased capabilities to our key partners and a number of new projects have recently commenced at Dunstable following this significant investment. In 2003/04 Scapa was able to design, develop and introduce a number of new wound care products utilising our well-established, skin-friendly medical foam backings and skin-friendly medical adhesives. Key customers completed the approval process in 2003 for these new products and product launch quantities were successfully manufactured in the second half of 2003/04.

New high-speed conversion capability will be added in North America in early 2004/05 enabling additional new products to be introduced for the first aid market in the second half of 2004/05. In the first half of 2003/04 some North American customers reduced inventory levels which had previously been built up following the increased threat of terrorism. This inventory reduction now appears to be at an end, although the forthcoming expiry of patent protection at one of our customers is likely to have some impact on sales in North America in 2004/05. Scapa has some important long-term patents in the nasal dilator sector and has now established a confidential agreement with a new partner to exploit this intellectual property.

Overall Scapa Medical continues to identify good opportunities for sustainable growth in all of its three principal sectors: wound care, diagnostic devices and first aid tapes. The underlying market continues to demonstrate good underlying growth reflecting the increasing demand for improved healthcare and the trend in developed economies towards an ageing population. The strategy of offering key partners an integrated

approach to the design, development and manufacture of specialist medical components has proved to be successful in recent years and should continue to bring benefits to the Group in the years ahead.

Cable

Cable supplies market leading Megolon™ compounds and cable tapes for power and communication cables and represents 17.5% of Group sales.

Scapa's Cable business unit experienced a significant recovery in the European cable market from November 2003, although the North American optical fibre market has remained stubbornly soft. Overall sales grew by 6.1% to £33.0 million (2002/03 £31.1 million). This strong performance also benefited from the successful introduction of a number of new Megolon™ compounds during the year. Scapa continues to be the global market leader in Megolon™ technology and the continued increase in the number of specifications focusing on the safety and environmental benefits of this halogen free technology will continue to spur market growth in the coming period.

Although there was a two month delay in its final commissioning, the new European cable products facility at Tameside, Greater Manchester, has now been completed and is now fully operational. It incorporates the latest processing equipment for Megolon™ compounds and is enabling us to take full advantage of the recent upturn in market demand. This includes new pilot production lines which are assisting in the development of a new range of high performance Megolon™ compounds for high temperature cable applications and automotive wiring insulation. These products will be progressively introduced during 2004/05 and initial product trials have been well received by our customers.

European Megotape™ demand for energy cable applications remained buoyant throughout the year with a number of important contracts being secured. In North America, the demand for water blocking tapes remained weak and short-term prospects still remain subdued. There are some new opportunities in Asian markets for these products, due to the rapid development of infrastructure in the region, but competition in this area remains tough. Accordingly, plans are being developed to transfer part of our water blocking manufacturing to Asia to ensure we are closer to the regional customers and to consolidate the balance of our North American cable tapes facility into an existing North American site.

Prospects for Scapa's Megolon™ cable compounds remain excellent, with initial order intake during the first weeks of 2004/05 at record levels. The pipeline of new products remains strong and there are good long-term growth prospects for all cable products in Asia.

Automotive

Automotive supplies specialist tapes and films for the assembly, protection and sound attenuation of automobiles and other transportation vehicles and represents 10.5% of Group sales

The automotive market had a difficult year in 2003/04. Against this background, overall Scapa sales to the automotive market were unchanged at £19.7 million in 2003/04 (£19.7 million 2002/03). The impact of currency was significant during the year with sales benefiting from the stronger Euro but suffering from the weaker US Dollar.

In the first half of 2003/04 the European team secured a number of new contracts following approvals for new products. These automotive tapes have been designed to meet the latest automotive standards for NVH (noise, vibration and harshness) which assist vehicle designers in eliminating noise and vibration from vehicle interiors. Although initial sales growth has been slower than customers have initially indicated, due to the underlying trends in vehicle production, these new products offer good growth prospects in the year ahead. However, although raw material pricing was well managed in 2003/04, there are some concerns regarding raw material pricing trends. To mitigate this, additional material and process cost reduction projects have been introduced.

The North American team continued to focus on developing even closer partnerships with key customers during the year. The new high temperature harness tapes for engine applications continued to perform well, but the take up of the Autolon™ halogen free harness tapes has been disappointing. In Japan there are moves

to ensure 95% recycling of all car components, but the date when this will be mandatory continues to be deferred. Scapa is working closely with key Tier One automotive suppliers on a global basis, but the moves to eliminate PVC from cars completely (and hence giving significant opportunities to Autolon™ tapes) are proceeding slowly.

Although the underlying demand for vehicles in many markets remains somewhat subdued, the short-term prospects for Scapa's automotive sales remain fair. Recent development work in the designed systems sector has identified a number of new opportunities, which should result in additional sales in the second half of 2004/05. In addition, the new harness tapes designed to meet the latest demands regarding NVH should continue to bring additional benefits.

Industrial

Industrial supplies specialist tapes and films for industrial assembly, construction, printing and graphics and sports markets and represents 61.1% of Group sales.

Scapa Industrial experienced very mixed trading conditions during 2003/04. The North American market had a strong final quarter to the financial year and achieved year on year sales growth of almost 7% at constant exchange rates. Asian markets were also buoyant, but Continental European markets were difficult throughout the period. Overall Industrial sales fell by 1.6% to £114.8 million (2002/03 £116.7 million).

In North America our industrial distribution business saw a significant pick up, especially in the final quarter, partly due to the strength of underlying demand and partly due to the successful introduction of a number of new products. The pipeline of new products has been strong in North America for several years and customer demand for new products in the assembly and electronics sectors was particularly encouraging in 2003/04. Scapa has also recently introduced a new range of bonding tapes and an exciting highly competitive new range of polyethylene based tapes with excellent ultra-violet resistance, designed for outdoor sealing and protection applications. We have continued to strengthen our Sales and Marketing Group in North America and this will be continued into 2004/05.

In Europe, underlying trading was more difficult. In addition, sales performance was affected by an organisational focus on the European site consolidation programme. This programme has now been completed and the new European Industrial sales structure is already showing encouraging results. The industrial market in the UK showed some growth during the year and we have been allocating increasing sales resources into the new EU accession countries, which are delivering increasing benefits. However the decline in the Finimat™ photo-processing tapes business continued during the year, principally due to the impact of digital cameras. The construction team performed well, given the tough Continental European market and there are a number of new products designed for the glazing market due to be introduced in 2004/05.

Asia performed extremely well during 2003/04 with sales up 29%. This sales growth was principally due to the successful introduction of a number of new products, particularly in the electronics sector. We have continued to invest in high calibre sales and marketing staff and plan to open a further sales office in Chengdu in China in the second half of 2004/05. A major technical tapes training seminar has also been completed for all of our existing team to help them develop the levels of technical product expertise required by global customers. This has already helped them to identify a number of new opportunities for increased sales in 2004/05.

The prospects for the Industrial Business Unit remain mixed. Although the North American market was extremely buoyant in the final quarter of 2003/04 there still remain some concerns about the sustainability of this growth. Asia offers excellent growth prospects going forward and we shall continue our policy of investing in high calibre staff to take advantage of these opportunities. The European markets appear to have stabilised, but the immediate growth prospects remain somewhat muted.

Financial Review

Operating results

The Group adopted FRS17, Retirement Benefits, during 2003/04, in place of SSAP24, Accounting for Pension Costs. Prior year figures have been re-stated to reflect this change in accounting policy.

The trading performance of the Group is discussed in detail in the Operating Review. In summary sales were marginally ahead at £187.9m, (2002/03 £187.0 million), an increase of 0.5%. Headline operating profit increased by 30% from £4.6 million in 2002/03 to £6.0 million in 2003/04. Operating cost savings achieved as a result of the European site reorganisation and closure programme, which more than offset the lower European sales volumes, together with improved product mix in North America and rapid growth in Asia all contributed to this improvement.

Exceptional items

Operating exceptional charges in 2003/04 amounted to £11.7 million comprising:

- £5.0 million in connection with the now completed site reorganisation and closure programme, which commenced in 2001/02. These costs include charges associated with closing and integrating a number of sites, as part of a three year programme to optimise site performance and reduce fixed costs. This included some further redundancy costs across Europe, which were incremental to the original plan.
- £0.5 million incurred in connection with a disputed legal claim by an ex-employee for a prior year bonus payment, for which insufficient provision had been made.
- The Group's provision for future litigation costs, relating to a discontinued business in the USA, was reviewed during the year. The Board has recognised that it is now likely to be longer before it sees a significant reduction in these defence costs and accordingly has decided to provide for a further £6.2 million.

The Group disposed of a number of properties during the year that generated a net profit on the sale of these properties of £0.9 million.

Interest

Net interest payable was £0.4 million unchanged from 2002/03. Interest cover as a ratio of operating profit before FRS17 finance charge, goodwill and exceptional items was fifteen times.

A new borrowing facility of £30 million was negotiated during the year which replaced the previous facility that was repaid in April 2004. The interest margin on the new facility is around 1% more than that on the previous facility.

In line with the requirements of FRS17 the Profit and Loss Account includes an FRS17 finance charge of £1.5 million (2002/03 £0.5 million). This is an actuarial calculation and does not represent a real cash flow in the year.

Profit before tax and earnings per share

Headline profit before tax was 11% higher at £4.1 million (2002/03 £3.7 million) with headline earnings per share of 3.6p (2002/03 1.5p). Earnings per share are stated after recognising the benefit arising from the favourable settlement of prior year tax issues, which totalled £4.8 million (2002/03 £3.4 million). Loss before tax was £8.2 million (2002/03 loss of £21.4 million) with a loss per share of 2.8p (2002/03 14.8p loss per share).

Taxation

In 2003/04 there was a tax credit of £1.1 million against profit on ordinary activities before exceptional items. The tax credit benefited from the favourable settlement of prior year issues. With the recognition of a further tax credit of £3.0 million against exceptional charges, total tax credit in the year was £4.1 million (2002/3 £0.1 million charge). The tax credit arising on tax losses in the year, from loss making entities, have not been recognised.

Dividends

Following the successful completion of the capital reduction programme in February 2004 the company is able to resume payment of dividends to shareholders. The Board is recommending a final dividend of 0.3p per share payable on 13 August 2004 to shareholders on the register as at 23 July 2004.

Operating cash flow

The Group had a further successful year for cash generation and achieved a cash inflow from its operating activities (before exceptional items), and after purchase of fixed assets and including proceeds from sale of properties and government grant income, of £10.8 million (2002/03 £9.9 million). This strong performance continues to benefit from a consistent focus on working capital, with trading working capital (stocks, trade debtors less trade creditors) reducing by a further £2.3 million. Trading working capital as a percentage of annual sales has fallen again by a further 1.3 percentage points between 31 March 2003 and 31 March 2004 to 17.6%.

Capital spend was £0.3 million higher than 2002/03 at £6.9 million. This represents 95% of the depreciation charge for the year of £7.3 million. This investment was focused particularly on improving equipment process productivity and enhancing the capabilities of the two UK centres of excellence primarily for the medical and cable sectors.

Other cash flow movements

Exceptional cash outflows in the year were £6.8 million (2002/03 £8.1 million). This primarily represents the cash element of the reorganisation costs discussed above, including cash spend against costs accrued in previous years. This figure also includes £1.2 million relating to litigation defence costs in the USA associated with a discontinued business.

A final deferred payment of £0.3 million was made for the Cable Components Limited acquisition purchased in October 2001.

The final payment of \$6.5 million (£4.2 million) was made to J. M. Voith A.G. in respect of the pension and environmental settlement which had been agreed in July 2002.

Pensions

The Group operates defined benefit and defined contribution schemes. In 2003/04 the Group changed its policy for accounting for pension costs for defined benefit schemes from that permitted under SSAP 24 Accounting for Pension Costs to that permitted under FRS 17 Retirement Benefits. The combined FRS 17 pension deficit for all Scapa's defined benefit schemes is now included on the balance sheet and totalled £38.9 million at 31 March 2004 (31 March 2003 £40.4 million).

The three UK schemes with defined benefits were re-valued by the scheme actuaries as at 1 April 2003. This revaluation calculated deficits in all three schemes, a result primarily of: increased life expectancy, changes in the discount rate used to calculate present value of liabilities and the fall in equity markets. The effect of this revaluation has been to increase the level of cash contributions into the three main UK schemes. In 2003/04 cash contributions into the UK defined benefit schemes, totalled £1.2 million. Following the agreement of the schedule of contributions with the respective Trustees for these schemes, the company has agreed to increase this in 2004/05 to approximately £4.5 million.

Funding

The Group requirement for funding is managed by the Group Treasury function. At 31 March 2004, the Group had net borrowings of £13.7 million compared to a net borrowings position of £15.7 million as at 31 March 2003, a reduction in borrowings of £2.0 million over the year. As at 31 March 2004 the Group had committed facilities of £30.0 million, of which £22.4 million were utilised, and uncommitted short term and overdraft facilities up to £15.0 million in the UK and overseas. As these facilities were due to expire on 30 April 2004, the Group successfully negotiated a replacement £30.0 million committed loan facility, which expires on 10 March 2007. This facility has been secured on certain Group fixed and floating assets.

Treasury policies

Treasury operations are managed as part of the world wide finance function and are subject to policies and procedures approved by the Group Board. Most of Scapa's assets and currency flows are denominated in non-UK currencies. In general terms it is Group policy to match, where cost effective and practicable, the currencies of costs to revenues and the currencies of liabilities to assets. The majority of borrowings taken out by the Group are denominated in non-UK currencies thus reducing the translation exposure on the balance sheet. As these borrowings are serviced by local cash flows reflecting local profits, so in turn the profit and loss account is partially and internally hedged against currency movements. The Group does not hedge directly the translation exposure of the profit and loss account whether by use of options or other derivatives. The Group does not create or maintain any speculative risk exposures.

Foreign currency transaction exposures are dealt with individually by the operating subsidiaries in accordance with Group policies and procedures using forward foreign exchange contracts and currency overdrafts.

Interest rate management

Given the historically low rates that have been available in recent years, management of the Group's exposure to interest rates has been largely weighted towards floating rate debt. In accordance with Board approved policy, this exposure is regularly reviewed in order to maintain an appropriate mix of fixed and floating rate borrowings.

Contingencies and legal proceedings

The Group monitors all material contingent liabilities including matters relating to the environment through a process of consultation and evaluation which includes senior management, and internal and external advisors. This process results in conclusions with respect to potential exposure and provisions are made or adjusted accordingly by reference to accounting principles. Management believe that the Group has adequately provided for contingencies which are more likely than not to become payable in the future.

Various Group companies, along with many other non-Scapa Group businesses, are named as defendants in claims in which damages are being sought for personal injury arising from alleged exposure to asbestos. The company believes that it has strong defences to the claims asserted in these proceedings and intends to vigorously defend such claims. The Directors believe, having taken advice from legal counsel, that it is unlikely that significant uninsured liabilities will arise from this litigation.

International Accounting Standards

The Group will be required to adopt International Accounting Standards as from the 1 April 2005, which will require the re-statement of the balance sheet as at 31 March 2004 and the re-statement of results for the period to 31 March 2005. The Group is in the process of assessing the impact of these changes in accounting policy on its results.

Consolidated Profit and Loss Account

For the year ended 31 March 2004

	Note	2004 Before exceptional items £m	2004 Exceptional items (Note 2) £m	2004 Total £m	2003 Before exceptional items (restated) £m	2003 Exceptional Items (Note 2) £m	2003 Total (restated) £m
Turnover - continuing	1	187.9	-	187.9	187.0	-	187.0
Operating profit/(loss)							
Before goodwill amortisation		6.0	(11.7)	(5.7)	4.6	(5.1)	(0.5)
Goodwill amortisation		(1.5)	-	(1.5)	(2.2)	(12.0)	(14.2)
Operating profit/(loss)							
Continuing operations		4.5	(5.5)	(1.0)	2.4	(17.1)	(14.7)
Discontinued operations	2	-	(6.2)	(6.2)	-	-	-
Total operating profit/(loss)	1	4.5	(11.7)	(7.2)	2.4	(17.1)	(14.7)
Profit on disposal of fixed assets	2	-	0.9	0.9	-	-	-
Additional loss on sale of discontinued operations	2	-	-	-	-	(5.8)	(5.8)
Profit/(loss) on ordinary activities before interest and taxation		4.5	(10.8)	(6.3)	2.4	(22.9)	(20.5)
Net interest (payable)/receivable		(0.4)	-	(0.4)	(0.4)	-	(0.4)
Other finance costs – FRS17	5	(1.5)	-	(1.5)	(0.5)	-	(0.5)
Profit/(loss) on ordinary activities before taxation		2.6	(10.8)	(8.2)	1.5	(22.9)	(21.4)
Taxation		1.1	3.0	4.1	(1.5)	1.4	(0.1)
Profit/(loss) on ordinary activities after taxation		3.7	(7.8)	(4.1)	-	(21.5)	(21.5)
Equity minority interests		-	-	-	-	-	-
Profit/(loss) for the financial year		3.7	(7.8)	(4.1)	-	(21.5)	(21.5)
Dividends		(0.4)	-	(0.4)	(0.9)	-	(0.9)
Retained profit/(loss) for the year	4	3.3	(7.8)	(4.5)	(0.9)	(21.5)	(22.4)
Weighted average number of shares (m)							
For basic & diluted loss per share				144.8			144.8
Basic and diluted loss per share (p)				(2.8)			(14.8)
Earnings per share before goodwill, amortisation and exceptional items (p)				3.6			1.5

Comparative figures for 2003 have been restated following the adoption of FRS17 Retirements Benefits.

Statement of Total Recognised Gains & Losses

For the year ended 31 March 2004

	2004	2003 (restated)
	£m	£m
Loss for the year	(4.1)	(21.5)
Currency translation differences on foreign currency net investments	(5.2)	(1.8)
Actuarial gain / (loss) on pension schemes	2.6	(24.7)
Deferred tax associated with pension schemes	-	0.2
Total recognised losses for the year	<u>(6.7)</u>	<u>(47.8)</u>
Prior year adjustment	<u>(39.5)</u>	
Total recognised losses since last annual report	<u>(46.2)</u>	

Comparative figures for 2003 have been restated following the adoption of FRS17 Retirements Benefits.

Consolidated Balance Sheet

As at 31 March 2004

	31 March 2004	31 March 2003 (restated)
	£m	£m
Fixed assets		
Intangible assets - goodwill	21.2	24.9
Tangible assets	58.5	64.7
	<u>79.7</u>	<u>89.6</u>
Current assets		
Stocks	17.3	19.3
Debtors	47.2	42.9
Investments	12.5	13.4
Cash at bank and in hand	9.8	13.0
	<u>86.8</u>	<u>88.6</u>
Creditors – amounts falling due within one year:		
Borrowings	23.5	3.5
Creditors	34.0	39.1
	<u>57.5</u>	<u>42.6</u>
Net current assets	<u>29.3</u>	<u>46.0</u>
Total assets less current liabilities	<u>109.0</u>	<u>135.6</u>
Creditors - amounts falling due after more than one year:		
Borrowings	-	25.2
Creditors	12.6	10.4
	<u>12.6</u>	<u>35.6</u>
Provisions for liabilities and charges	13.1	8.2
Net assets excluding pension liability	<u>83.3</u>	<u>91.8</u>
Net pension liability	38.9	40.4
Net assets including pension liability	<u>44.4</u>	<u>51.4</u>
Capital and reserves		
Called-up share capital	7.2	60.3
Share premium account	-	61.5
Profit and loss account	37.1	(70.4)
Shareholders' funds – equity (note 4)	<u>44.3</u>	<u>51.4</u>
Minority equity interests	0.1	-
Capital employed	<u>44.4</u>	<u>51.4</u>

Comparative figures for 2003 have been restated following the adoption of FRS17 Retirement Benefits

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Note	2004 £m	2003 £m
Cashflow from operating activities			
Net cash inflow before exceptional items	3	12.7	15.4
Net cash outflow related to exceptional items	3	(6.8)	(8.1)
Net cash inflow from operating activities		<u>5.9</u>	<u>7.3</u>
Returns on investments and servicing of finance			
Interest received		1.5	2.0
Interest paid		(2.1)	(2.8)
Net cash outflow from returns on investments and servicing of finance		<u>(0.6)</u>	<u>(0.8)</u>
Taxation		<u>0.8</u>	<u>(0.2)</u>
Capital expenditure and financial investment			
Net receipts/(payments) in respect of forward contracts on current asset investment		0.9	1.0
Receipt from current asset investment		-	13.1
Purchase of tangible fixed assets		(6.9)	(6.6)
Proceeds of disposal of tangible fixed assets		3.4	1.1
Receipt of government grant		1.6	-
Net cash (outflow)/inflow from capital expenditure and financial investment		<u>(1.0)</u>	<u>8.6</u>
Acquisitions and disposals			
Net cash outflow in respect of previous years' acquisitions		(0.3)	(5.2)
Net cash outflow in respect of previous years' disposals		(4.2)	(2.6)
Net cash outflow from acquisitions and disposals		<u>(4.5)</u>	<u>(7.8)</u>
Equity dividends paid		<u>-</u>	<u>(3.4)</u>
Net cash inflow before use of liquid resources and financing		<u>0.6</u>	<u>3.7</u>
Management of liquid resources			
Decrease in short term deposits		0.3	0.1
Net cash inflow from management of liquid resources		<u>0.3</u>	<u>0.1</u>
Financing			
Decrease in loan finance		(1.7)	(1.8)
Net cash outflow from financing		<u>(1.7)</u>	<u>(1.8)</u>
(Decrease)/increase in cash in the year		<u>(0.8)</u>	<u>2.0</u>

Notes on the Accounts

1. Turnover and profit/(loss) before tax - segmental analysis

By origin:	2004 Total	2003 Total (restated)
Turnover	£m	£m
Europe	118.3	116.8
North America	64.7	66.4
Asia	4.9	3.8
	<u>187.9</u>	<u>187.0</u>
Operating profit/(loss) before goodwill amortisation and exceptional items		
Europe	(1.5)	(2.0)
North America	7.1	7.0
Asia	0.4	(0.4)
	<u>6.0</u>	<u>4.6</u>
Amortisation of goodwill		
Europe	(0.6)	(0.6)
North America	(0.9)	(1.6)
	<u>(1.5)</u>	<u>(2.2)</u>
Exceptional items - continuing operations		
Europe	(5.0)	(5.1)
North America	(0.5)	(12.0)
	<u>(5.5)</u>	<u>(17.1)</u>
Total operating profit/(loss) from continuing operations		
Europe	(7.1)	(7.7)
North America	5.7	(6.6)
Asia	0.4	(0.4)
	<u>(1.0)</u>	<u>(14.7)</u>
Exceptional items - discontinued operations		
North America	<u>(6.2)</u>	<u>-</u>
Total operating loss		
Europe	(7.1)	(7.7)
North America	(0.5)	(6.6)
Asia	0.4	(0.4)
	<u>(7.2)</u>	<u>(14.7)</u>
Profit on disposal of fixed assets - Europe	0.9	-
Additional loss on sale of discontinued operations – North America	-	(5.8)
Loss on ordinary activities before interest and taxation		
Europe	(6.2)	(7.7)
North America	(0.5)	(12.4)
Asia	0.4	(0.4)
	<u>(6.3)</u>	<u>(20.5)</u>
Net interest payable	(0.4)	(0.4)
Other finance costs – FRS17	(1.5)	(0.5)
Loss on ordinary activities before taxation	<u>(8.2)</u>	<u>(21.4)</u>

	2004 Total £m	2003 Total £m
By destination:		
Turnover		
Europe	105.9	105.0
North America	63.8	67.4
Other	18.2	14.6
	<u>187.9</u>	<u>187.0</u>
By market segment:		
Turnover		
Automotive	19.7	19.7
Cable	33.0	31.1
Industrial	114.8	116.7
Medical	20.4	19.5
	<u>187.9</u>	<u>187.0</u>

Comparative figures for 2003 have been restated following the adoption of FRS17 Retirement Benefits.

Analyses of operating profits/losses and net assets by market segment are not available. A geographic analysis of net assets is not provided, as in the opinion of the directors, such disclosure would seriously prejudice the Group's interests.

2. Exceptional items

The following exceptional items have been reflected in the accounts for the year ended 31 March 2004:

A Group restructuring and cost reduction programme commenced during the 2001-02 financial year, following an extensive review of the company's European operations. This programme has now been completed during the current financial year, with exceptional operating charges of £5.0m relating to the consolidation of certain European sites being incurred in the year to 31 March 2004. These charges principally relate to the costs of moving and commissioning plant and machinery, project management costs, redundancies and the disposal of fixed assets.

An exceptional charge of £0.5m was incurred relating to a legal claim by an ex-employee for a prior year bonus payment, for which insufficient provision had been made.

An additional provision of £6.2m was made to cover the costs involved in defending asbestos litigation.

Proceeds on the disposal of fixed assets totalled £3.4m, and profit of £0.9m was recorded after accounting for £0.2m direct costs of disposal.

The following exceptional items were reflected in the year ended 31 March 2003:

Exceptional operating charges of £5.3m relating to the consolidation of certain European sites were incurred in the year ended 31 March 2003.

£0.2m of exceptional credits were reflected in the consolidated profit and loss account primarily as a result of the release of accruals in respect of previous acquisitions and other liabilities no longer required.

Following an impairment review of capitalised goodwill, the net book value of goodwill relating to the acquisition in July 2001 of LUSA Inc. was written down in the consolidated balance sheet by £12.0m. This impairment was calculated by comparing the net book value of goodwill relating to the acquisition of LUSA Inc. with the present value of future cash flows of that income-generating unit, based on budgets and forecasts approved by the Group Board, discounted at the applicable pre-tax cost of capital of 12.2%.

A £5.8m charge, being an additional loss on the sale of discontinued businesses, was reflected for the year. This charge resulted from the settlement of a number of outstanding issues between Scapa and J.M. Voith AG related to the sale of the papermaking products business in July 1999.

In return for payments of \$4.0m (£2.6m) in September 2002 and \$6.5m (£4.2m) in October 2003, Voith agreed to accept responsibility for all existing and future environmental liabilities for the sites that were sold to them, with the exception of the then ongoing remediation work at a small site in Massachusetts, USA. In addition, Voith dropped its claim for substantial additional funding for the transferred US Pension Schemes, and the Group was able to release \$20.0m (£13.1m) from the \$40.0m escrow fund set up following the sale of the papermaking business. Of the total settlement of £6.8m, £1.0 was charged against provisions and £5.8m was reflected in the consolidated profit and loss account. No deferred tax asset or current year tax credit was recognised in respect of this £5.8m charge as the capital loss was not expected to be recoverable in the future.

3. Notes to the consolidated cash flow statement

	Before exceptional items 2004 £m	Before exceptional items 2003 (restated) £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit before exceptional items	4.5	2.4
Depreciation	7.3	7.8
Amortisation of goodwill	1.5	2.2
Difference between pension charge and cash contributions	(0.6)	-
Net movement in working capital		
Stocks	0.5	3.5
Debtors	(1.8)	2.9
Creditors	1.3	(3.4)
	-	3.0
Net cash inflow from operating activities before exceptional items	<u>12.7</u>	<u>15.4</u>

	Exceptional items 2004 £m	Exceptional items 2003 £m
Operating loss - exceptional items	(11.7)	(17.1)
Impairment of tangible fixed assets	-	0.6
Impairment of goodwill	-	12.0
Net movement in reorganisation provisions	(0.1)	(0.1)
Net movement in working capital	-	(1.6)
Net movement in provisions in respect of prior year disposals	5.0	(1.9)
Net cash outflow related to exceptional items	<u>(6.8)</u>	<u>(8.1)</u>

The cash flow statement for 2003 has been restated following the adoption of FRS17 Retirement Benefits.

4. Reconciliation of movement in equity shareholders' funds

	2004 £m	2003 (restated) £m
Loss for the year	(4.1)	(21.5)
Dividends	(0.4)	(0.9)
	<u>(4.5)</u>	<u>(22.4)</u>
Other recognised gains and losses relating to the year	(2.6)	(26.3)
Net reduction in equity shareholders' funds	<u>(7.1)</u>	<u>(48.7)</u>
Opening equity shareholders' funds (originally £90.9m before deducting prior year		

adjustment of £39.5m)	51.4	100.1
Closing equity shareholders' funds	44.3	51.4

2003 figures have been restated following the adoption of FRS17 Retirement Benefits.

5. Accounting Policies

The Group results have been prepared in accordance with the accounting policies stated in the 2004 Annual Report. For the year ended 31 March 2004, the Group adopted FRS17 Retirement Benefits as early adoption is encouraged by the Standard. The comparatives for the year ended 31 March 2003 have been restated following the adoption of FRS17 and the effect of this restatement is as detailed below:

Impact of adopting FRS17 Retirement Benefits

	Year ended 31 March 2004			Year ended 31 March 2003		
	Based on SSAP24 accounting policy	Impact of adopting FRS17	Based on FRS17 accounting policy	Based on SSAP24 accounting policy	Impact of adopting FRS17	Based on FRS17 accounting policy
	£m	£m	£m	£m	£m	£m
Profit and Loss Account						
Operating profit before goodwill amortisation and exceptional items	4.5	1.5	6.0	5.3	(0.7)	4.6
(Loss)/Profit on ordinary activities before interest and taxation	(7.8)	1.5	(6.3)	(19.8)	(0.7)	(20.5)
Other finance costs – FRS17	-	(1.5)	(1.5)	-	(0.5)	(0.5)
Loss on ordinary activities before taxation	(8.2)	-	(8.2)	(20.2)	(1.2)	(21.4)
Statement of total recognised gains and losses						
Actuarial gain/(loss) on pension scheme	-	2.6	2.6	-	(24.7)	(24.7)
Deferred tax on actuarial loss	-	-	-	-	0.2	0.2
Balance Sheet						
Net assets excluding pension liability	79.3	4.0	83.3	33.7	1.0	34.7
Pension liability	-	(38.9)	(38.9)	-	(40.4)	(40.4)
Shareholders' funds	79.2	(34.9)	44.3	90.9	(39.5)	51.4
Cash flow statement						
Operating profit before exceptional items	3.0	1.5	4.5	3.1	(0.7)	2.4
Movement in working capital	1.5	(1.5)	-	2.3	0.7	3.0

The FRS17 charge to operating profit for the year ended 31 March 2004 is £1.5m (£1.7m 2003).

Had FRS17 not been adopted for the year ended 31 March 2004, and had the assets been valued on an ongoing valuation basis, the SSAP24 charge for the year would be £1.9m higher, and had the spreading method remained unchanged, the charge would be a further £1.6m higher.

6. Group Consolidated Statutory Accounts

This statement is not a statement of the full accounts for the years ended 31 March 2003 and 2004. The results in respect of the financial years ended 31 March 2003 and 2004 are abridged versions of the Group's consolidated statutory accounts, which have been reported on without qualification by the auditors. Copies of the full accounts for the year ended 31 March 2004 will be circulated to shareholders on 7th June 2004 and delivered to the Registrar of Companies after approval at the Annual General Meeting which will be held on 22 July 2004. Further copies will be available from the Registered Office, Oakfield House, 93 Preston New Road, Blackburn BB2 6AY. Full audited accounts for the year ended 31 March 2003 have been filed with the Registrar of Companies and received an unqualified audit report.