**7 June 2007**

# Scapa Group plc
# Preliminary Results

Scapa Group plc, a global supplier of technical adhesive tapes, today announced its preliminary results for the 12 months ended 31 March 2007.

## Highlights

- Underlying[§] sales 6% up due to growth in Europe following operational improvement initiatives
- Trading Profit* of £7.0m - £1.6m up on last year's result despite £1.2m detriment from currency and £0.6m due to business disposals (£3.4m up on an underlying[§] basis)
- Positive headline[§] earnings per share for the first time in 6 years
- Further stage of major cost reduction programme put in place - cost of £1.5m with estimated annual savings of £1.2m
- Sale of three businesses during the year. Total net proceeds £23.0m with a combined profit on disposal of £11.9m
- New legal cost apportionment agreement on asbestos saving £0.5m of cash in the full year - exceptional credit in year of £0.9m. Over 12,500 claims (40% of total) dismissed since March 2006

**Commenting on the results, Chairman Dr Keith Hopkins said:**

"Scapa made major progress in 2006/07 due to the operational initiatives put into place over the last 18 months with the underlying trading profit double that of the previous year.

"Business disposals made in the year have transformed the financial position of the Group with the next stages of our planned development programme targeted to further enhance performance."

For further information:


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

*[§] Underlying sales and trading profits adjust for business disposals, currency and exceptional items. Headline earnings per share adjust for business disposals and exceptional items.*
** Figures shown here and elsewhere as 'trading profit' in the Preliminary Announcement relate to operating profit before profit on disposal of businesses of £11.9m (2006: nil), exceptional costs of £0.3m (2006: £3.3m) and goodwill/asset impairments of £2.9m (2006: £13.7m).*

## Chairman's Statement

Scapa made major progress in 2006/07 with a 30% increase in trading profit (operating profit before profit on business disposals, impairments and exceptional costs) over the previous year. This was due in the main to cost savings from the rationalisation plans put into place over the last two years. Business disposals during the year and the effect of a weaker US Dollar reduced sales by £14.1m and £3.9m respectively, leaving sales turnover for the year at £184.3m (2006: £191.5m). On an underlying basis (adjusting for these items) sales grew by 6% due to the strong performance of our European business.

Trading profit of £7.0m was £1.6m up on last year, despite the reduction in profit from businesses sold during the year (£0.6m), foreign exchange translation (£0.6m) and financial instruments (£0.6m). On an underlying basis (adjusting for these items) trading profit was a substantial £3.4m up on prior year.

Profit on business disposals amounted to £11.9m and more than offset goodwill and asset impairments of £2.9m (2006: £13.7m) and exceptional costs of £0.3m (2006: £3.3m). The operating profit for the year was £15.7m (2006: £11.6m loss). Profit before tax amounted to £12.9m (2006: loss of £14.5m) with the increase due primarily to the profit on business disposals and the impact of impairments in 2006. The headline EPS was 1.1p per share compared to a loss of 0.1p per share in 2005/06. As last year, no final dividend is proposed.

### Portfolio

As outlined in our last annual report a key strategy is to reduce the spread of our business by selling peripheral operations. Three disposals were made during the financial year comprising of our small loss-making Irish distribution business, our Megolon compounding business and our Lymington sealants business. Total net proceeds, including working capital released of £2.0m, amounted to £23.0m with the total profit on disposal amounting to £11.9m. Whilst these disposals transformed the financial position of our Group we nevertheless intend to keep the role of all our businesses within the Group under review.

### Business performance

During the year we implemented the third phase of the major rationalisation programme at a cost of £1.5m with annual savings of £1.2m. This brought the total cost of the three phases to date to £4.1m with annual savings in ongoing businesses of £3.5m. Profitability in our North American operations was maintained at its high historical level with significant progress made in our European operations.

### Finance

Strict cash management has remained a key objective throughout the year. Substantial cash payments continued on legacy issues with a further £3.8m paid into our pension funds. Underlying trading working capital increased by £0.2m due to the impact of rising sales volumes in the last quarter. Cash inflow from operations was £6.9m (2006: £2.1m) before capital investment of £2.8m (2006: £2.7m). Net cash excluding the remaining US$10m in the Waycross deposit was £11.2m (31 March 2006 £13.2m debt). The elimination of our borrowings was primarily due to the sale of peripheral businesses during the year.

### Asbestos litigation

The Company continues to defend itself from personal injury claims in the USA arising from alleged exposure to asbestos that relate to a business we sold in 1999. During the year over 12,500 plaintiffs' claims were dismissed with the total now down to under 20,000 from a peak of 34,000 in 2004. In addition, agreement was reached with our insurance carriers to reduce our share of litigation costs from approximately 50% to 25% for the three years commencing 1 April 2006. This change gave rise to a reduction in the litigation reserve resulting in a credit of £0.9m to exceptional costs. We currently have one jury trial in progress in New Jersey, where a verdict is expected in the next day or so.

**Pensions**
The IAS 19 pension deficit as at 31 March 2007 was £58.3m, some £5.1m down from 31 March 2006 due to a slightly higher discount rate and change in actuarial assumptions, including the closure of the schemes to future accrual, together with the cash contributions made during the year. Discussions on the future funding of our pension deficits are currently underway with both the Scheme Trustees and Pensions Regulator. Once these discussions are concluded we will give a market update.

**The Board**
Michael Baughan and Sarkis Kalyandjian retired from the Board after the Annual General Meeting on 25 July 2006. We wish them a long and healthy retirement. Colin White resigned as a Director on 29 November 2006. I would like to thank him for his service over the last five years and wish him well for the future. As announced in April I am pleased to say that Brian Tenner will join the Board as Finance Director later this month. In the first quarter, I announced my intention to retire from the Company and the recruitment of a new Chairman is currently underway.

**Employees**
I would like to thank, on behalf of the Board, all of our staff for their commitment and hard work over the last twelve months during a period of substantial change for our Group.

**Outlook**
As we start our new financial year the US Dollar remains weak and raw material prices remain relatively high. Demand in North America has strengthened a little in recent months with Europe continuing to show the positive volume trend experienced over the last year.

Trading in April and May has been in line with expectations. This reinforces confidence that key business issues are being actively addressed with continued emphasis on areas of under-performance and narrowing of our business spread. While last year has seen good overall progress against our strategic objectives, the next stages of our planned programme, to be completed over the next two to three years, will improve Group performance further and enhance shareholder returns.

## Business Review

**Scapa's Business**
Scapa is one of the leading technical adhesive tapes and film manufacturers in the world with manufacturing and sales operations in eleven countries across North America, Europe and Asia. Within Scapa there is a depth of technical competence and manufacturing expertise derived from tape manufacturing experience over many years. The business is managed and structured around its three principal regions: North America, Europe and Asia.

**Strategy**
During 2005/06 we completed a major review of the business and developed a series of strategic and operational initiatives to address the major under-performance seen in recent years. The first outcome of the review was the decision to dispose of peripheral operations, three of which have been sold during the year. On 19 June 2006 we completed the sale of our small £4.4m turnover, loss-making Irish distribution business for £1.0m, including £0.4m of deferred consideration. The loss on disposal after transaction costs was £0.1m. Following shareholder approval on 23 August 2006, we completed the sale of our Megolon compounding business for £16.75m on 13 October 2006. The profit on disposal after transaction costs was £9.4m. On 9 February 2007 we completed the sale of our £7m turnover Lymington sealants business for £4.9m. The profit on disposal after transaction costs was £2.6m. The total profit on disposal was £11.9m and gave rise to a substantial improvement in the annual reported profit for 2006/07, together with the much needed improvement in Group finances.

The second outcome of the 2005/06 review was an extension of our major operating cost reduction programme, the third stage of which was implemented during the year at a cost of £1.5m with additional annual savings of £1.2m. Total expenditure over the three phases of the programme amounts to £4.1m, with estimated total annual savings of £3.5m in ongoing businesses. This rationalisation programme has been the main driver behind performance improvement in Europe. Relentless cost reduction will continue to be the way of life at Scapa and will take a further two to three years to complete.

The final outcome from the 2005/06 review was the need to find a more equitable balance for the business in relation to the cash legacy costs of the asbestos litigation and pension deficit. Major progress has been made on asbestos litigation with a step reduction in plaintiff claims and legal costs following the negotiation of a new three-year cost apportionment agreement from the start of 2006/07. On pensions an initial reduction has been made in the deficit including the closure of the Southern Scheme to future accrual. Discussions continue with the Trustees of all three Schemes and the Pension Regulator to finalise future funding of the deficits.

## 2006/07 Performance

### Overview

Sales in 2006/07 reduced by 4% to £184.3m (2006: £191.5m) due to the impact of business disposals (£14.1m) and £3.9m from a weaker US Dollar despite strong growth in Europe. Trading profit increased by £1.6m to £7.0m, with an operating margin of 3.8%. The improvement here was again impacted by business disposals (£0.6m), foreign currency translation (£0.6m) and financial instruments (£0.6m). At constant exchange rates, underlying sales adjusting for disposals increased by 6% and underlying trading profit by £3.4m. Raw material and energy price increases continued to be a challenge to margins in 2006/07. Sales price increases were implemented throughout the year across most market sectors and recovered the majority of our raw material cost increase although there was a time lag in a number of areas. Reorganisation costs of £1.5m were incurred in the year primarily to reduce our cost base in the UK with annual savings of £1.2m. The total number of Group employees fell by 199 during the financial year as a result of the three business disposals together with the major rationalisation programme.

### Europe

Sales in 2006/07 reduced by 5% to £111.2m due to the sale of the three peripheral operations mentioned earlier. Underlying sales in the continuing tape businesses rose by 8% with continued improvement in delivery performance and overall customer service in the period. Trading profit improved by a further £1.4m and has moved from a loss of £0.4m in 2004/05 to a profit of £0.7m in 2005/06 followed by a profit of £2.1m in 2006/07 despite the loss of £0.6m of profit from peripheral operations following their sale part way through the current year. The key driver behind the performance improvement has been the three-phased rationalisation plan with an additional benefit from this arising in the year of £2.1m.

All market sectors experienced underlying sales growth during the year. The most significant gains were in the automotive, construction and the printing and graphics markets. Targeted sales price increases were achieved across all market sectors, largely offsetting increases in raw material prices in the year albeit that some lag was experienced in a number of market areas. Utility costs were again high but had moderated somewhat following last year's severe hikes.

Following the sale of our Megolon and Lymington businesses the third phase of the major cost reduction plan was implemented with anticipated annual savings of £1.2m. Despite the major rationalisation plan, performance has been modest in a number of areas and, as a result of this, asset carrying values in the UK and Switzerland were reduced at the end of March by a total of £2.8m.

Working capital was higher at March 2007 due largely to the higher sales volume in the last quarter, which was 7% ahead of the prior year. Capital investment was focused primarily on health and safety and quick payback projects including automatic conversion equipment in France and Switzerland.

European sales will be increasingly focused on exploiting niche geographic and end-user opportunities. New product development has been restructured and managed to support these objectives, following a number of years of under-performance. Overall Group co-ordination is now lead by our senior North American technical, research and development management team. The pressure of raw material price increases throughout 2006/07 and the resulting impact on margins remains an area of emphasis with the business committed to continued restoration of margins over the course of 2007/08.

**North America**
North American sales of £65.3m were £1.4m down on the prior year due to the translation impact of a weaker US Dollar. At constant exchange rates sales were 3% up, due to growth in the medical and industrial markets. Trading profit was £0.1m down on 2005/06, at £7.6m, due to a £0.5m detriment from the weaker US Dollar. The underlying trading profit was £0.4m up on prior year with margins also slightly up at 11.6%.

Medical sales returned to their previous growth trend with a strong increase of 9% over prior year. Industrial sales grew by 4% year on year due to the strength in the sports and entertainment markets with the construction performance flat. Sales of water swellable tapes grew due to increased demand from the telecommunications industry. Automotive sales declined with the US domestic manufacturers having a poor year.

On average, raw material prices remained firm although both selective increases and decreases were experienced in the period. Utility costs moderated after the substantial price hikes experienced in the last financial year. Previous sales price increases helped to mitigate the impact of cost increases. Operational cost control remained tight throughout the year although performance was disrupted by a fire at our Carlstadt facility in January which interrupted normal production in the final quarter and gave rise to an exceptional cost of £0.2m in the period.

Trading working capital levels remained consistent with the prior year whilst capital investment was again managed tightly, with investment focused on health and safety and short-term cost reduction projects. Operating cash generation continued to be strong.

Excellent delivery performance and inventory control accuracy levels contributed to high levels of customer satisfaction and service. With these in place we remain confident that underlying organic sales growth will continue, further leveraging the fixed cost base.

**Asia**
Sales in Asia were slightly up on prior year at £7.8m. On a constant exchange basis sales increased by 3%. Trading profit for the year was £0.2m compared to a loss of £0.1m in 2005/06. The strength of the Korean Won does, however, still continue to hamper profitability in the region. The second half of the year showed a welcome return to profit after the disappointing first half loss of £0.1m. Following the disposal of our Megolon business the £1.0m p.a. distribution agreement in Asia was terminated at the end of the year, which will result after cost savings in a profit reduction of some £0.1m p.a. Goodwill arising on our Chinese acquisition of £0.1m was written off in the period due to modest ongoing performance. Regional focus remains towards profitable growth rather than just higher volume.

**Corporate**
Corporate costs in the year reduced by £0.6m on an underlying basis following the closure of the corporate headquarters in Blackburn and consolidation of the corporate team into the Ashton site at the end of 2005/06. The lease of the headquarters was subsequently assigned to a third party which gave rise to a credit of £0.2m to exceptional costs. During the year we terminated currency swaps that had historically been used to partially hedge the Balance Sheet at a loss of £0.1m (£0.5m benefit in 2005/06). Following shareholder approval, the move to AIM was completed in August 2006 and gave rise to an exceptional cost of £0.1m. In December we concluded the sale of several residual properties for £0.5m resulting in an exceptional profit disposal of £0.5m (2006: £0.1m).

**Asbestos litigation**

The Group continues to be involved in a number of cases in the USA arising from the alleged exposure of papermill workers to asbestos in a product that was part of a business sold to J M Voith AG in July 1999. Prior to 2003 the Company had either won all cases, or had been dismissed, or the case had been abandoned before going to court. In October 2003, a jury in Baltimore, Maryland, USA, returned an award of US$3.0m against Scapa Dryer Fabrics Inc. This wholly unexpected judgement was subsequently reversed on appeal in November 2005 and the plaintiff's further appeal has been denied. The plaintiff has, however, applied for a retrial with a provisional court hearing date set for January 2008. Another adverse verdict was entered in Louisiana in February 2005 awarding in total US$162,500 plus costs and interest to seven plaintiffs. The Company has appealed against the judgement but the judicial process in Louisiana is still being disrupted by the effects of Hurricane Katrina and it is not yet known when the appeal will be heard.

During the year over 12,500 plaintiffs' claims were dismissed by the District Court for the Eastern District of Pennsylvania with the total number of claims at 31 March 2007 now below 20,000 (the lowest level since 2002). In addition, major progress was made on renegotiating the apportionment of legal costs with our insurance carriers. Agreement was reached for the three years commencing 1 April 2006 that our share of litigation costs would be reduced from approximately 50% to 25%. This change gave rise to a credit to exceptional costs of £0.9m in the period.

**Business risk**

There are a variety of business risks that can affect international manufacturing companies like Scapa. International businesses routinely manage risks associated with foreign currency fluctuations and can be affected by cost pressures associated with raw material pricing and availability, customer relocations, developments in international tariffs and legislation and changes in the overall geo-political climate, including the development of competitors from within low cost economies. Scapa is not dependent on any single customer and in 2006/07 the largest single customer represented less than 4% of total Group sales.

The Registration, Evaluation and Authorisation of Chemicals (REACH) legislation was adopted by the European Commission in December 2006 and came into force on 1 June 2007. This legislation requires specific hazard testing for all chemicals manufactured or imported into the EU, placing the responsibility on the manufacturer or importer, to satisfy standardised testing protocols in relation to any long-term health risks relating to that chemical. In our view, we believe that the REACH legislation will have a limited impact on Scapa over the next three to five years. However the legislation will be monitored carefully to ensure the Group is compliant with the standards that are eventually set.

As described earlier Scapa continues to be involved in cases arising from alleged exposure to asbestos. In over ten years of successful defence in the USA no Scapa Group company, nor any of its insurance carriers, has admitted liability nor made any payment to any plaintiff under our policies. Accordingly, our insurance coverage remains intact and the Board will continue to defend vigorously the outstanding claims. However this litigation still poses a potential risk to the Group. Appropriate advice is continually being sought to ensure that these risks are managed in an appropriate manner.

The Group operates three defined benefit pension schemes with significant funding deficits. The three schemes were revalued during 2006 based on the position as at 1 April 2006, and new contribution funding levels are in the process of negotiation with the trustees. The pension's regulator has provided general guidance to trustees regarding the period over which deficits should be paid down, and recent legislation has given additional powers to pension trustees to strengthen their negotiating position.

We have continued to adopt a detailed review process at all levels of the business to monitor and control business risks. Principal risks to the business are reviewed on a regular basis by the senior management team and the Group Board and remedial action plans are developed as and when appropriate. Overall we continue to consider that the policies and monitoring systems which are in place and which have been reviewed regularly throughout the year remain sufficient to effectively manage the risks associated with our business.

## Finance

### Operating results

Sales were 4% down at £184.3m (2006: £191.5m) but 6% ahead on constant currency basis after adjusting for business disposals.

Trading profit was £7.0m (2006: £5.4m), an increase of £1.6m, despite an impact of £0.6m due to business disposals, £0.6m due to foreign exchange translation and £0.6m due to financial instruments. Operating cost savings were the main contributors to the improvement in profit. The operating profit for the year was £15.7m (2006: £11.6m loss) after profit on disposal of businesses of £11.9m (2006: nil), impairments of £2.9m (2006: £13.7m) and other exceptional items of £0.3m (2006: £3.3m).

### Exceptional costs

Reorganisation costs and other exceptional items totalled £0.3m (2006: £3.3m). Of this, £1.5m (2006: £2.4m) was in connection with redundancies across the Group with a £0.2m credit (2006: cost of £1.0m) on dilapidations and onerous lease provisions. In the year £0.9m was released from the asbestos litigation provision following the new legal agreement effective from 1 April 2006. Sale of residual properties gave rise to a further credit of £0.5m (2006: £0.1m) with the move to AIM costing £0.1m and a small fire at Carlstadt a further £0.2m.

### Goodwill and asset impairments

Arising from the IAS 36, 'Impairment of Assets' annual review the residual goodwill on the Chinese operations of £0.1m was written off (2006: £10.9m write-off on the Lusa, CCL, Medifix and Boldscope acquisitions).

In addition the carrying values of certain fixed assets at two sites have been written down as estimates of prospective cash flows are considered to be insufficient to justify the current value of the business's assets. The total amount of the writedown was £2.8m (2006: £2.8m) and related to our UK site at Ashton, and to Rorschach in Switzerland.

### Interest

Net interest payable was £0.5m, (2006: £1.0m) with major benefit from lower average levels of debt following the sale of peripheral businesses in the year despite the impact of the higher interest rates. Interest cover, being trading profit before finance costs and tax as a multiple of interest paid on net borrowings, was 14 times.

The IAS 19, 'Employee Benefits' pensions finance charge was £1.9m (2006: £1.4m). The accounting discount on long-term provisions was £0.4m (2006: £0.5m).

### Profit before tax and taxation charge

Statutory profit before tax was £12.9m. This was a substantial improvement on last year's loss of £14.5m due to the improvement in underlying business performance, profit on business disposals and reduced impairments/exceptional costs. Trading profit before tax after all finance charges increased by £1.7m to £4.2m (2006: £2.5m).

The tax credit of £0.4m includes a current year tax charge payable of £0.6m plus deferred tax of £2.9m less a prior year tax credit of £0.9m and an exceptional tax credit of £3.0m. No benefit has been recognised for potential future tax credits for loss-making entities (mainly in the UK), as there is little expectation of recovery within the foreseeable future. The IAS 19 pension's deficit has an associated tax asset of £16.8m which has not been recognised in the accounts, as there is little expectation of this being utilised in the near term.

Earnings per share were 9.2p (2006: loss of 10.6p per share). The earnings per share after eliminating profit on business disposals, impairment charges and exceptional items including taxation were 1.1p (2006: loss of 0.1p per share).

**Cash flow and Balance Sheet**

The Group generated a net cash inflow from operating activities (before reorganisation and movements in exceptional provisions) of £9.1m (2006: £6.3m). Trading working capital increased by £0.2m (before exchange movements) in the year to 31 March 2007 due primarily to an increase in sales volumes in the last quarter. Payments into the pension funds in excess of the charge to profit totalled £3.8m (2006: £3.3m) and reorganisation spend was £1.4m (2006: £2.4m). Asbestos litigation defence spend reduced substantially to £0.5m (2006: £1.4m) due to lower legal activity together with the benefit of the new legal cost apportionment agreement. Capital investment was in line with the prior year at £2.8m (2006: £2.7m) and reflected tight management of expenditure. The net cash flow from operating activities, after all investing activities, was an inflow of £23.8m (2006: £2.9m outflow).

Net proceeds from business disposals in the period, including the resulting reduction in working capital and excluding £0.4m of deferred consideration, amounted to £22.6m (2006: nil).

In September 2005 an agreement was reached with J M Voith AG to make a release of US$10m from the Waycross deposit and gave rise to a substantial improvement in the 2005/06 cash flow. The remaining balance of US$10m (£5.1m) will now be held for an additional two years until 31 December 2011.

The Group’s net cash movement for the year was an inflow of £23.8m (2006: £2.8m), which after adjusting for the effects of foreign exchange translation, resulted in the elimination of net debt and establishment of a cash balance, net of debt, of £11.2m at 31 March 2007 (excluding the remaining Waycross deposit of £5.1m).

The IAS 19 pensions deficit as at 31 March 2007 was £58.3m (31 March 2006 £63.4m). This reduction was a consequence of a slightly higher discount rate, change in actuarial assumptions including the closure of the Southern Scheme to future accrual and cash contributions made during the year.

The profit for the year together with the decrease in the pension deficit increased shareholder funds at 31 March 2007 to £19.4m (31 March 2006 £8.2m). Currency translation at the year end had a £5.2m unfavourable impact on shareholder funds (2006: £2.3m favourable).

**Treasury policies**

Treasury operations are managed as part of the worldwide finance function and are subject to policies and procedures approved by the Group Board. Corporate Treasury co-ordinates treasury activities throughout the Group and seeks to reduce financial risk, ensure sufficient liquidity is available to the operations and invest surplus cash. Corporate Treasury does not operate as a profit centre and does not take speculative financial positions. Very limited use is made of derivative financial instruments. Corporate Treasury advises operational management on financial risks and executes all major transactions in financial instruments, except for forward exchange contracts to hedge transactional exposures on overseas operations, which are locally arranged.

**Funding requirements**

At 31 March 2007 the Group had committed unsecured facilities of $15.0m, none of which was utilised. The Group also had uncommitted short-term and overdraft facilities of up to £11.4m in the UK and overseas, of which £1.3m were utilised at 31 March 2007. Further details on the Group’s debt maturity profile are shown in note 19 to the accounts. These facilities are projected to more than cover peak forecast borrowings for at least a twelve-month forward period. All bank covenants were complied with during the year. The Group's £25m secured committed facility was terminated during the year following the receipt of business disposal proceeds.

**Currency risk management**
Most of Scapa's assets and currency flows are denominated in currencies other than Sterling. 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 currencies other than Sterling, thus reducing part of 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 businesses 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. In August 2004 the Group took out an interest rate cap covering a principal of US$10m for a three-year term, with US Dollar three-month LIBOR interest cap fixed at 3.5%. As Group borrowings were eliminated following the receipt of proceeds from business disposals, this cap was sold in the autumn of 2006 realising a net gain of £0.1m.

**Counterparty credit risk management**
Counterparty credit risk arises from the investment of surplus cash and the use of financial instruments. The Group restricts transactions to banks that have a defined minimum credit rating and limits the individual and aggregate exposure to each bank.

**Contingencies and legal proceedings risk management**
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 advisers. This process results in an evaluation of potential exposure and provisions are made or adjusted accordingly by reference to accounting principles. By this methodology the Group has provided for contingencies which are anticipated to be 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. Based on advice from legal counsel 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.

## Consolidated Income Statement
For the year ended 31 March 2007

| All on continuing operations | note | **Year ended 31 March 2007 £m** | Year ended 31 March 2006 £m |
|---|---|---|---|
| **Turnover** | 2 | **184.3** | 191.5 |
| **Operating profit/(loss)** | 2 | **15.7** | (11.6) |
| Trading profit* | | **7.0** | 5.4 |
| Exceptional items and movements in exceptional provisions: | | | |
| - Business disposals | | **11.9** | - |
| - Reorganisation costs and exceptional provision movements | 4 | **(1.3)** | (3.4) |
| - Movement in asbestos litigation costs provision | | **0.9** | - |
| - Property, plant and equipment and goodwill impairment | 4,5 | **(2.9)** | (13.7) |
| - Other | | **0.1** | 0.1 |
| **Operating profit/(loss)** | | **15.7** | (11.6) |
| Interest payable | | **(1.2)** | (1.3) |
| Interest receivable | | **0.7** | 0.3 |
| | | **(0.5)** | (1.0) |
| Discount on provisions | | **(0.4)** | (0.5) |
| IAS 19 finance costs | | **(1.9)** | (1.4) |
| Net finance costs | | **(2.8)** | (2.9) |
| **Profit/(loss) on ordinary activities before taxation** | | **12.9** | (14.5) |
| Taxation on operating activities | | **(2.6)** | (2.7) |
| Exceptional tax credit | | **3.0** | 1.9 |
| **Taxation credit/(charge)** | | **0.4** | (0.8) |
| **Retained profit/(loss) for the year** | | **13.3** | (15.3) |
| Weighted average number of shares | 6 | **144.8** | 144.8 |
| Basic and diluted earnings/(loss) per share (p) | 6 | **9.2** | (10.6) |

## Consolidated Statement of Recognised Income and Expense
For the year ended 31 March 2007

| All on continuing operations | note | **Year ended 31 March 2007 £m** | Year ended 31 March 2006 £m |
|---|---|---|---|
| Retained profit/(loss) for the year | | **13.3** | (15.3) |
| Exchange differences on translating foreign operations | 7 | **(5.2)** | 2.3 |
| Actuarial gains/(losses) | 7 | **3.1** | (19.3) |
| **Total recognised income/(expense) for the year** | | **11.2** | (32.3) |
| IFRS transition adjustment (IAS 32 and IAS 39) | | **-** | 0.2 |
| **Total recognised income/(expense)** | | **11.2** | (32.1) |

* Operating profit before business disposals, impairments, reorganisation costs and exceptional provision increases

## Consolidated Balance Sheet
As at 31 March 2007

| | note | **31 March 2007 £m** | 31 March 2006 £m |
|---|---|---|---|
| **Assets** | | | |
| | | | |
| **Non-current assets** | | | |
| Goodwill | | **9.8** | 11.2 |
| Property, plant and equipment | | **33.5** | 46.9 |
| Deferred tax asset | | **6.2** | 9.4 |
| | | **49.5** | 67.5 |
| **Current assets** | | | |
| Inventory | | **18.5** | 21.6 |
| Trade and other receivables | | **38.6** | 46.5 |
| Financial assets - derivative financial instruments | | **-** | 0.2 |
| Current asset investments | | **5.1** | 5.7 |
| Current tax asset | | **0.1** | - |
| Cash and cash equivalents | | **12.5** | 3.4 |
| | | **74.8** | 77.4 |
| **Liabilities** | | | |
| | | | |
| **Current liabilities** | | | |
| Financial liabilities: | | | |
| - Borrowings and other financial liabilities | | **(0.8)** | (3.0) |
| - Derivative financial instruments | | **(0.1)** | (0.1) |
| Trade and other payables | | **(29.0)** | (33.6) |
| Current tax liabilities | | **(0.1)** | (0.6) |
| Provisions | | **(1.6)** | (2.7) |
| | | **(31.6)** | (40.0) |
| | | | |
| **Net current assets** | | **43.2** | 37.4 |
| | | | |
| **Non-current liabilities** | | | |
| Financial liabilities: | | | |
| - Borrowings and other financial liabilities | | **(0.5)** | (13.6) |
| Other non-current liabilities | | **(2.0)** | (2.1) |
| Deferred tax liabilities | | **(0.9)** | (5.0) |
| Other tax liabilities | | **(3.2)** | (2.7) |
| Retirement benefit obligations | | **(58.3)** | (63.4) |
| Provisions | | **(8.4)** | (9.9) |
| | | **(73.3)** | (96.7) |
| | | | |
| **Net assets** | | **19.4** | 8.2 |
| | | | |
| **Shareholders' equity** | | | |
| | | | |
| Ordinary shares | | **7.2** | 7.2 |
| Retained earnings | | **13.9** | (2.6) |
| Translation reserve | | **(1.7)** | 3.6 |
| **Total shareholders' equity** | *7* | **19.4** | 8.2 |

## Consolidated Cash Flow Statement

For the year ended 31 March 2007

| All on continuing operations | note | **Year ended 31 March 2007 £m** | Year ended 31 March 2006 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash flow from operations | *8* | **6.9** | 2.1 |
| Cash generated from operations before reorganisation and movements in exceptional provisions | | **9.1** | 6.3 |
| Cash outflows from reorganisation and movements in exceptional provisions | | **(2.2)** | (4.2) |
| **Net cash flow from operations** | | **6.9** | 2.1 |
| Net interest paid | | **(0.5)** | (1.1) |
| Income tax paid | | **(1.3)** | (1.0) |
| **Net cash generated from operating activities** | | **5.1** | - |
| **Cash flows from investing activities** | | | |
| Proceeds from business disposals | | **21.2** | - |
| Purchase of property, plant and equipment | | **(2.8)** | (2.7) |
| Proceeds from sale of property, plant and equipment | | **0.5** | 0.1 |
| Repayment of government grant | | **(0.2)** | - |
| Proceeds from release of $10m Waycross deposit | | **-** | 5.7 |
| Net payments in respect of forward contracts | | **-** | (0.3) |
| **Net cash generated from investing activities** | | **18.7** | 2.8 |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | **(12.4)** | (8.0) |
| **Net cash used in financing activities** | | **(12.4)** | (8.0) |
| **Net increase/(decrease) in cash and cash equivalents** | | **11.4** | (5.2) |
| Cash and cash equivalents at beginning of the year | | **0.9** | 5.7 |
| Exchange (losses)/gains on cash and cash equivalents | | **(0.3)** | 0.4 |
| **Cash and cash equivalents at end of the year** | | **12.0** | 0.9 |

# Notes on the Accounts

## 1. Basis of Preparation

The consolidated financial statements of Scapa Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as endorsed for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

## 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.

### Segment results

The segment results for the year ended 31 March 2007 are as follows:

| | Europe £m | N America £m | Asia £m | Eliminations £m | Corporate £m | Group £m |
|---|---|---|---|---|---|---|
| External sales | 111.2 | 65.3 | 7.8 | - | - | 184.3 |
| Inter-segment sales | 4.3 | 2.9 | 1.6 | (8.8) | - | - |
| Total revenue | 115.5 | 68.2 | 9.4 | (8.8) | - | 184.3 |
| Segment result (before exceptional costs) | 2.1 | 7.6 | 0.2 | - | (2.9) | 7.0 |
| Exceptional items and movements in exceptional provisions: | | | | | | |
| - Business disposals | 11.9 | - | - | - | - | 11.9 |
| - Property, plant and equipment and goodwill impairment | (2.8) | - | (0.1) | - | - | (2.9) |
| - Movement in asbestos litigation costs provision | - | - | - | - | 0.9 | 0.9 |
| - Reorganisation costs and exceptional provision movements | (1.0) | - | (0.2) | - | (0.1) | (1.3) |
| - Other | - | (0.2) | - | - | 0.3 | 0.1 |
| Exceptional items | 8.1 | (0.2) | (0.3) | - | 1.1 | 8.7 |
| Operating profit/(loss) | 10.2 | 7.4 | (0.1) | - | (1.8) | 15.7 |
| Net finance costs | | | | | | (2.8) |
| **Profit on ordinary activities before taxation** | | | | | | **12.9** |
| Taxation on operating activities | | | | | | (2.6) |
| Exceptional tax credit | | | | | | 3.0 |
| Taxation credit | | | | | | 0.4 |
| **Retained profit for the year** | | | | | | **13.3** |

Sales are allocated 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 | Group £m |
|---|---|---|---|---|
| External sales | 100.3 | 61.8 | 22.2 | 184.3 |

## 2. Segmental reporting (Cont'd)

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 | (3.9) | (1.1) | - | - | (5.0) |
| Impairment of goodwill | - | - | (0.1) | - | (0.1) |
| Impairment of property, plant and equipment | (2.8) | - | - | - | (2.8) |
| Litigation provision release | - | - | - | 0.9 | 0.9 |

The segment results for the year ended 31 March 2006 were as follows:

| | Europe £m | N America £m | Asia £m | Eliminations £m | Corporate £m | Group £m |
|---|---|---|---|---|---|---|
| External sales | 117.1 | 66.7 | 7.7 | - | - | 191.5 |
| Inter-segment sales | 5.9 | 2.8 | 1.2 | (9.9) | - | - |
| Total revenue | 123.0 | 69.5 | 8.9 | (9.9) | - | 191.5 |
| Segment result (before exceptional costs) | 0.7 | 7.7 | (0.1) | - | (2.9) | 5.4 |
| Exceptional items and movements in exceptional provisions: | | | | | | |
| - Business disposals | - | - | - | - | - | - |
| - Property, plant and equipment and goodwill impairment | (10.3) | (2.7) | (0.7) | - | - | (13.7) |
| - Movement in asbestos litigation costs provision | - | - | - | - | - | - |
| - Reorganisation costs and provision increases | (2.2) | (0.1) | - | - | (1.1) | (3.4) |
| - Other | - | - | - | - | 0.1 | 0.1 |
| Exceptional items | (12.5) | (2.8) | (0.7) | - | (1.0) | (17.0) |
| Operating (loss)/profit | (11.8) | 4.9 | (0.8) | - | (3.9) | (11.6) |
| Net finance costs | | | | | | (2.9) |
| **Loss on ordinary activities before taxation** | | | | | | **(14.5)** |
| Taxation on operating activities | | | | | | (2.7) |
| Exceptional tax credit | | | | | | 1.9 |
| Taxation charge | | | | | | (0.8) |
| **Retained loss for the year** | | | | | | **(15.3)** |

Sales are allocated 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 was as follows:

| | Europe £m | N America £m | Other £m | Group £m |
|---|---|---|---|---|
| External sales | 106.7 | 63.5 | 21.3 | 191.5 |

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

| | Europe £m | N America £m | Asia £m | Corporate £m | Group £m |
|---|---|---|---|---|---|
| Depreciation | (5.0) | (1.3) | (0.1) | - | (6.4) |
| Impairment of goodwill | (8.3) | (2.6) | - | - | (10.9) |
| Impairment of property, plant and equipment | (2.0) | (0.1) | (0.7) | - | (2.8) |
| Other non-cash expenses | - | (0.1) | - | (0.1) | (0.2) |

## 3. Segment assets and liabilities

The segment assets and liabilities at 31 March 2007 and capital expenditure for the year then ended are as follows:

| | Europe £m | N America £m | Asia £m | Corporate £m | Group £m |
|---|---|---|---|---|---|
| Segment assets | 63.4 | 36.5 | 3.2 | 21.2 | 124.3 |
| Segment liabilities | (56.0) | (11.3) | (1.1) | (36.5) | (104.9) |
| Capital expenditure | (1.5) | (1.2) | (0.1) | - | (2.8) |

The segment assets and liabilities at 31 March 2006 and capital expenditure for the year then ended were as follows:

| | Europe £m | N America £m | Asia £m | Corporate £m | Group £m |
|---|---|---|---|---|---|
| Segment assets | 78.4 | 52.9 | 3.8 | 9.8 | 144.9 |
| Segment liabilities | (63.1) | (16.0) | (0.8) | (56.8) | (136.7) |
| Capital expenditure | (1.5) | (1.0) | - | (0.1) | (2.6) |

The Group is organised into geographical areas and does not report to management on any other basis. The Group has only one business segment, being the sale of technical adhesive tapes and as such there is no additional secondary segment information to report under IAS 14.

## 4. Exceptional items

In the year ended 31 March 2007 the exceptional items for the Group totalled a net credit of £8.7m and comprised:

Business disposals during the year resulted in a profit of £11.9m following the sale of peripheral businesses; the Megolon compounding business was sold in October 2006 at a profit of £9.4m, followed by the sale of the Lymington sealant business in February 2007 at a profit of £2.6m. These profits on disposals were offset by a £0.1m loss on the sale of the loss-making Irish distribution business in June 2006.

Reorganisation costs and exceptional provision movements totalled £1.3m in the year, of which £1.5m was incurred in connection with redundancies across the Group, offset by a credit of £0.2m relating to the net movements for exceptional and onerous lease provisions.

In addition, there was a provision release of £0.9m in the year relating to the asbestos litigation provision following the new legal agreement with the insurance companies effective from April 2006.

Impairments of property, plant and equipment of £2.8m were booked in the year following a review of the projected future cash flows relating to a UK site and the Group's Swiss site. In addition, a goodwill balance of £0.1m was impaired relating to the Group's activities in China following a slower than anticipated development in performance.

Other exceptional items resulted in a net gain of £0.1m in the year largely due to the profit on the sale of residual properties (£0.5m), offset somewhat by other exceptional items including the costs associated with a fire at the Group's USA Carlstadt site (£0.2m).

## 5. Impairment of assets

**Year ended 31 March 2007**
The carrying values of the Group's goodwill and property, plant and equipment balances have been reassessed at 31 March 2007 for any evidence that the carrying value may be impaired. A discount rate of 9.5% based on the Group’s weighted average cost of capital has been used in each review.

## 5. Impairment of assets (Cont'd)

Impairments in the year totalled £2.9m and were made up as follows:

Impairment at the Rorschach site in Switzerland of £2.0m has been recorded in the period against property. The property was reviewed against value in use using discounted future cash flows of the operation and as a result of slower than anticipated growth in the trading of the local operation, the carrying value of the asset was found to be in excess of the discounted forecast cash flows.

Impairment at the UK North site of £0.8m has been recorded in the period. The plant and equipment at the UK North site were reviewed against the value in use, using discounted future cash flows of the operation, and as a result of the restructuring of the site following the sale of the Megolon business, the carrying value of the remaining assets was found to be in excess of the discounted forecast cash flows.

In addition, an impairment of goodwill of £0.1m relating to the joint venture buy-out of the Chinese operations in 2005 has been recorded in the period. The site has been assessed against value in use, using discounted future cash flows from the site in China and as a result of slower than expected development in performance of the local operation the goodwill balance was impaired in full.

**Year ended 31 March 2006**
The following impairments were made in the year ended 31 March 2006 following a review of the carrying value of the Group's goodwill and asset values against the value in use at this time based on projected future cash flow forecasts:

Impairment of goodwill £6.7m, IT systems £0.4m and £0.2m leasehold additions was recorded relating to the UK Dunstable site following a reduction in demand for medical products manufactured at this site. In addition, impairment of the UK North site of £1.6m goodwill, £0.8m IT systems and £0.6m leasehold additions was recorded following a review of the under-performance of certain products manufactured at the site. Property, plant and equipment at the Korean site were also impaired totalling £0.7m, again following a review of the site's performance against the carrying value of the site's assets. Finally, a goodwill impairment of £2.6m and £0.1m plant and machinery was recorded for the North American cable business relating to the LUSA acquisition which had been combined into a cash generating unit (CGU) along with the cable property, plant and equipment in the region to assess the projected future cash flows of the business.

## 6. Earnings per share

**Basic and diluted**
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company currently has no dilutive potential ordinary shares.

| | **2007** | 2006 |
|---|---|---|
| Profit/(loss) attributable to equity holders of the Company (£m) | **13.3** | (15.3) |
| Weighted average number of ordinary shares in issue (m) | **144.8** | 144.8 |
| Basic and diluted earnings/(loss) per share (p) | **9.2** | (10.6) |

| **Headline (before exceptional items)** | **2007 £m** | 2006 £m |
|---|---|---|
| Profit/(loss) attributable to equity holders of the Company | **13.3** | (15.3) |
| Adjusted for: | | |
| Exceptional items | **(8.7)** | 17.0 |
| Exceptional element of tax charge | **(3.0)** | (1.9) |
| Adjusted profit/(loss) attributable to equity holders of the Company (£m) | **1.6** | (0.2) |
| Weighted average number of ordinary shares in issue (m) | **144.8** | 144.8 |
| Headline and diluted headline earnings/(loss) per share (p) | **1.1** | (0.1) |

## 7. Reserves

| | Share capital £m | Translation reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| Balance at 31 March 2006 | 7.2 | 3.6 | (2.6) | 8.2 |
| Currency translation differences | - | (5.2) | - | (5.2) |
| Recycling of foreign exchange on disposal | - | (0.1) | - | (0.1) |
| Actuarial gain on pension schemes | - | - | 3.1 | 3.1 |
| Net (loss)/income recognised directly in equity | - | (5.3) | 3.1 | (2.2) |
| Profit for the year | - | - | 13.3 | 13.3 |
| Total recognised income for the year | - | (5.3) | 16.4 | 11.1 |
| Employee share option scheme - value of employee services | - | - | 0.1 | 0.1 |
| **Balance at 31 March 2007** | **7.2** | **(1.7)** | **13.9** | **19.4** |

At 31 March 2007 financial liabilities of £0.1m have been recognised in the Balance Sheet relating to the fair values of derivative financial instruments in place across the Group at this date.

Movements in instruments used to hedge against the exposure to exchange differences due to the timing of cash flows are taken through the Income Statement as it is not Group policy to hedge account for these instruments.

Cumulative actuarial losses on pension schemes recognised in reserves total £23.5m (2006: £26.6m).

## 8. Reconciliation of operating profit to operating cash flow, and reconciliation of net debt

| All on continuing operations | **Year ended 31 March 2007 £m** | Year ended 31 March 2006 £m |
|---|---|---|
| Operating profit/(loss) | **15.7** | (11.6) |
| Adjustments for: | | |
| Depreciation | **5.0** | 6.4 |
| (Profit)/loss on disposal of fixed assets | **(0.5)** | 0.2 |
| Profit on disposal of businesses | **(11.9)** | - |
| Impairment of tangible fixed assets | **2.8** | 2.8 |
| Impairment of goodwill | **0.1** | 10.9 |
| Pensions payments in excess of charge | **(3.7)** | (3.0) |
| Movement in fair value of financial instruments | **0.1** | 0.1 |
| Share options charge | **0.1** | 0.1 |
| Grant income released | **(0.1)** | (0.2) |
| Changes in working capital: | | |
| - Inventories | **(0.8)** | (1.3) |
| - Trade debtors | **4.6** | (0.7) |
| - Trade creditors | **(2.0)** | (0.6) |
| Changes in trading working capital | **1.8** | (2.6) |
| Other debtors | **(0.8)** | (0.6) |
| Other creditors | **(0.3)** | 0.4 |
| Deferred consideration | **0.4** | - |
| Net movement in other provisions | **(0.3)** | (0.2) |
| Net movement in reorganisation provisions | **(0.1)** | 0.8 |
| Net movement in asbestos litigation provision | **(1.4)** | (1.4) |
| Cash generated from operations | **6.9** | 2.1 |

## 8. Reconciliation of operating profit to operating cash flow, and reconciliation of net debt (Cont'd)

| All on continuing operations | **Year ended 31 March 2007 £m** | Year ended 31 March 2006 £m |
|---|---|---|
| Cash generated from operations before reorganisation and movements in exceptional provisions | **9.1** | 6.3 |
| Cash outflows from reorganisation and movements in exceptional provisions | **(2.2)** | (4.2) |
| Cash generated from operations | **6.9** | 2.1 |

The changes in working capital include the unwind benefit of £2.0m relating to the business disposals made during the year ending 31 March 2007.

**Analysis of cash and cash equivalents and borrowings**

| | At 1 April 2006 £m | Cash flow £m | Exchange movement £m | **At 31 March 2007 £m** |
|---|---|---|---|---|
| Cash and cash equivalents | 3.4 | 9.4 | (0.3) | **12.5** |
| Overdrafts | (2.5) | 2.0 | - | **(0.5)** |
| | 0.9 | 11.4 | (0.3) | **12.0** |
| Borrowings within one year | (0.5) | 0.1 | - | **(0.4)** |
| Borrowings after more than one year | (13.6) | 12.3 | 0.9 | **(0.4)** |
| | (14.1) | 12.4 | 0.9 | **(0.8)** |
| **Total** | (13.2) | 23.8 | 0.6 | **11.2** |

**Reconciliation of net cash flow to movement in net debt**

| | **2007 £m** | **2007 £m** | 2006 £m | 2006 £m |
|---|---|---|---|---|
| **Increase/(decrease) in cash and cash equivalents** | | | | |
| Increase/(decrease) in net cash and cash equivalents in the year | **11.4** | | (5.2) | |
| Cash outflow from decrease in loan finance | **12.4** | | 8.0 | |
| **Change in net debt resulting from cash flows** | | **23.8** | | 2.8 |
| Release of arrangement fees | | **-** | | (0.1) |
| Translation differences | | **0.6** | | (0.7) |
| **Movement in net debt** | | **24.4** | | 2.0 |
| **Net debt at start of year** | | **(13.2)** | | (15.2) |
| **Cash and cash equivalents/(net debt) at end of year** | | **11.2** | | (13.2) |

**Cash flows arising from business disposals for the year ended 31 March 2007**

| | **2007 £m** |
|---|---|
| Fixed Assets | **6.1** |
| Stock | **2.7** |
| Other net current assets | **0.5** |
| Gain on disposal | **11.9** |
| **Net cash inflow** | **21.2** |
| Costs | **1.5** |
| **Gross proceeds from disposal** | **22.7** |
| Deferred consideration | **(0.4)** |
| **Net cash inflow from sale** | **22.3** |