

ASX ANNOUNCEMENT (ASX: ANO)

31 AUGUST 2009

## ANTARIA REPORTS 2009 FINANCIAL RESULTS

### Highlights

- Product Sales up 20% to \$3.63 million;
- ZinClear<sup>®</sup>-IM sales nearly double last year;
- ZinClear<sup>®</sup>-IM distribution strengthened with new European partners and expansion of territories managed by The Dow Chemical Company;
- Exclusive licence negotiated with Merck KGaA, Germany for the use of Antaria's unique plate-like alumina technology in Merck's cosmetics and industrial products;
- Major reductions in expenses and overhead costs sustained;
- Net loss (before non-cash items) nearly halved to \$1.51 million;
- Pre-tax loss (including non-cash items) reduced by 32% to \$3.10 million;
- Working capital reserves boosted by capital raisings, licensing and pre-payments; and
- Strengthened cash balance as at 30 June 2009 of \$3.25 million.

Antaria's achievements during the 2009 financial year have built a stronger base from which the Company can move forward with confidence. The Company has ended the year with very strong distribution partners, with a new license partner in Merck KGaA who are one of the strongest pharmaceuticals and chemicals groups in the world, with strong revenue growth in the ZinClear<sup>®</sup>-IM product range, and due to the successful implementation of a range of strategies, Antaria now has a much stronger cash position.

As our customers in the personal care sector can have lengthy product development cycles, it has been important for Antaria to keep the business structure as lean as possible. The 2009 financial results show the benefit of the cost reductions put in place in the prior year and further adjustments have been made to the cost base recently in support of the objective to achieve cash positive operations as quickly as possible.

The Company is focussing on a new challenge, and that is to ensure that it is capable of meeting high volume demands, the potential of which can now be seen from the ZinClear<sup>®</sup>-IM product range. To address this challenge, Antaria is now carrying out an upgrade of manufacturing facilities and working to secure manufacturing input supply lines.

Lower volume business lines have been discontinued or are being phased out. The Alusion<sup>®</sup> cosmetics product line has been licensed to the German based international group Merck, and it is felt that the true potential of this exciting alumina technology that underpins Alusion<sup>®</sup> can benefit from the product application and marketing reach of a much larger organisation.

Antaria has a clear focus on ZinClear<sup>®</sup>-IM now and for the immediate future and we believe that this advanced material concept is poised to become an important ingredient in many personal care consumer products.

### Distribution Initiatives

In July 2009, Antaria and The Dow Chemical Company (Dow) reached an agreement that will expand the territories in which Dow can market and sell ZinClear<sup>®</sup>-IM zinc oxide products. In addition to the existing sales territory of North and Latin America, the agreement now includes more than 20 additional countries, including Russia, Japan, India and Middle East regions. Antaria believes this territory expansion initiative, along with changing regulatory environments and a growing awareness of the benefits of ZinClear<sup>®</sup> as a mineral only UV active, are positive drivers that should further enhance our penetration of the global sun care market.

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## Distribution Initiatives (continued)

During the past year, Antaria has also significantly strengthened its distribution network in Europe with the appointment of three new distributors. Antaria, through its distributors, now ensures high levels of technical and sales support are available to ZinClear®-IM customers across every major European territory.

- In December 2008, the Company appointed Comercial Química Massó, S.A. (Masso) as a distributor of its ZinClear®-IM range of sun care dispersions. Masso, headquartered in Barcelona, Spain, provides Antaria with a strong presence in key Western European sales territories including France, Spain, and Switzerland as well as an expansion of coverage into some significant Eastern European territories including Poland, Czech Republic, and Hungary. As part of the new distribution arrangements, Masso provided Antaria with an advance payment of \$350,000 towards sales in the first year.
- In March 2009, Bregaglio Srl, a leading distributor of personal care ingredients in Italy and Greece for over 25 years and headquartered in Milan, was also appointed distributor for Antaria's ZinClear®-IM range in these two countries.
- In July 2009, Antaria concluded the expansion of its European distribution network with the formalisation of arrangements with IMCD Deutschland (IMCD), part of a global network of companies specialising in the marketing, sales and distribution of specialty chemicals, food and pharma ingredients. IMCD will be representing Antaria for its ZinClear®-IM range in the significant European territories of Germany and The United Kingdom, as well as Austria, Ireland, Norway, Denmark, Finland, Sweden, and German-speaking accounts in Switzerland.

## Licence Agreement with Merck, Germany

In April 2009, Antaria executed a licence agreement with the global pharmaceuticals and chemicals group Merck KGaA (Merck) of Darmstadt, Germany, for the exclusive worldwide rights to Antaria's plate-like alumina technology for use in Merck's cosmetics and industrial products.

The agreement provides for Antaria to receive an upfront payment of Euro 1.3 million in two instalments over the first year of the licence and an additional ongoing royalty on Merck's sale of products incorporating this technology. While the licence fee from Merck is received upfront in instalments, licence income will be recognised in the Company's profit and loss statement over the life of the licence (approximately €88,500 per annum for 15 years). During the initial period of the licence, Antaria will toll manufacture Alusion® and other products for Merck and also provide contract research and development on a fee-for-service basis. In the longer term, successful product and market development activities by Merck may lead to increased royalty revenues for Antaria.

## Capital Raising

In December 2008, Antaria put arrangements in place to supplement its working capital reserves by more than \$1,100,000. The first step was a private placement of \$700,000 to four existing shareholders in December 2008, followed by a Share Purchase Plan raising a total of \$98,000, and a placement to Directors and a related party raising an additional \$330,000 as approved by shareholders at a General Meeting held on 23 February 2009. All shares were issued at 4 cents per share.

The purpose of the capital raising was to support the growth of Antaria's business, and in particular the opportunities for ZinClear®-IM. Antaria is working to ensure that it is well placed to take advantage of the opportunities in the sun care and cosmetics market and sees the ZinClear®-IM range as having the potential to deliver significant revenue streams for the Company in the future.

On 20 July 2009, Antaria reached an agreement with its strategic partner Energenics Holdings Pte Ltd of Singapore by which Antaria will, when performed, further increase its working capital reserves subsequent to year end by an amount in excess of \$1,500,000. This working capital injection comprises a private placement of shares issued at 22 cents to the Energenics group raising \$1,000,000 and commitment of US\$437,000 in relation to an irrevocable order for the supply of Cercat™ for progressive delivery between now and June 2010. Completion of the placement and receipt of all funds is expected to take place in September.

## Investment in Manufacturing Capacity

During the year, Antaria has worked hard to improve the quality and efficiency of its production, including the design and planning for an upgrade and expansion of production capability in the 2010 financial year. This project will see the Company invest to increase its capacity in expectation of larger volume orders from North America. Stage 1 of this upgrade, entailing an investment of nearly \$0.5 million, should be completed in the first half of the 2010 financial year and will increase existing capacity, improve efficiency and reduce lead times to customers.

## Financial Summary

	2009	2008	Change		
	\$	\$			
<b>Revenue from sale of goods</b>					
Personal Care	3,355,061	2,741,135	613,926	Increased	22%
Industrial Coatings & Environmental	273,341	277,436	(4,095)	Decreased	1%
<b>Total revenue from sale of goods</b>	<b>3,628,402</b>	<b>3,018,571</b>	<b>609,831</b>	<b>Increased</b>	<b>20%</b>
Finance revenue	94,750	204,765	(110,015)	Decreased	54%
<b>Total revenue from continuing operations</b>	<b>3,723,152</b>	<b>3,223,336</b>	<b>499,816</b>	<b>Increased</b>	<b>16%</b>
Cost of goods sold	(2,859,544)	(2,835,270)	(24,274)	Increased	1%
Gross profit (including finance revenue)	863,608	388,066	475,542	Increased	123%
<b>Gross profit (excluding finance revenue)</b>	<b>768,858</b>	<b>183,301</b>	<b>585,557</b>	<b>Increased</b>	<b>319%</b>
<i>As a % of revenue from sale of goods</i>	<b>21%</b>	<b>6%</b>			
Other income	614,093	669,655	(55,562)	Decreased	8%
Expenses and overheads					
Expensed R&D and product development	(1,044,694)	(1,037,083)	(7,611)	Increased	1%
Business development, sales and marketing	(897,448)	(1,443,124)	545,676	Decreased	38%
Corporate and other expenses and overheads	(1,047,748)	(1,573,207)	525,459	Decreased	33%
Total expenses and overheads	(2,989,890)	(4,053,414)	1,063,524	Decreased	26%
<b>Net (loss) before non-cash items</b>	<b>(1,512,189)</b>	<b>(2,995,693)</b>	<b>1,483,504</b>	<b>Decreased</b>	<b>50%</b>
Non-cash items not included in above	(1,589,347)	(1,561,711)	(27,636)	Increased	2%
<b>Net (loss) before income tax</b>	<b>(3,101,536)</b>	<b>(4,557,404)</b>	<b>1,455,868</b>	<b>Decreased</b>	<b>32%</b>
Income tax credit	4,656,335	-	4,656,335		
<b>Profit/(loss) after tax from continuing operations</b>	<b>1,554,799</b>	<b>(4,557,404)</b>	<b>6,112,203</b>	Increased	134%

## Product Revenues and Other Income

Total revenue from continuing operations for the 2009 financial year was \$3,723,152 compared to the 2008 total of \$3,223,336. Revenue from sales of goods for the 2009 financial year totalled \$3,628,402, an increase of 20% over the 2008 sales of \$3,018,571.

### Personal Care

Personal Care sales for the 2009 financial year totalled \$3,355,061, an increase of 22% from the 2008 total of \$2,741,135.

The most promising feature of this result was that sales of the Company's ZinClear®-IM product range dominated revenue, contributing \$2,299,777 for the year which was nearly double the prior year sales of \$1,154,024. As we anticipated, sales of Antaria's original ZinClear® range of products was down 55% on the prior year at \$553,570 as an expected result of customers transitioning to ZinClear®-IM.

During the 2009 financial year, Antaria launched two new products in its ZinClear®-IM suncare range in response to feedback from its distributors and customers. These variants are expected to help Antaria increase its penetration into those suncare and cosmetics segments that are calling for more natural products and also where a softer, drier, non-greasy feel is required. One of these new lines is a 50wt% dispersion of zinc oxide in natural Jojoba oil which has obtained key European "ECOCERT" approval. This certification is expected to enhance our ability to further target the rapidly growing natural cosmetics segments.

Antaria is receiving encouraging feedback from its new European distribution partners. In the past, Antaria's promotional activities for ZinClear® in Europe have been affected by confusion surrounding the absence of zinc oxide from the EU list of approved UV filters. In 2009, significant progress has been made towards the clarification of this situation, with active discussion by regulatory and industry groups showing strong support for zinc oxide to be included in the list. Antaria is now finding some of the larger European customers who were previously reluctant to use zinc oxide are initiating new projects using ZinClear®-IM in anticipation of this approval being formalised.

In the North and Latin American markets, feedback from Dow is very encouraging. Dow is working closely with an increasing number of potential customers in these markets, ranging from smaller suncare manufacturers to larger personal care manufacturers with longer product development cycles.

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## Product Revenues and Other Income

### *Personal Care (continued)*

Also in the United States, the proposed amendments to the FDA sunscreen monograph (published in 2007) are yet to be implemented, with the US sunscreen manufacturers now caught in the transition between the old regulations and the anticipated amendments. However, zinc oxide has maintained its position as being one of only two UVA absorbers approved for the US suncare market, which, combined with the significant increase in consumer awareness of both UVA and chemical sunscreen safety, is continuing to drive strong interest in ZinClear<sup>®</sup>-IM.

Sales of Alusion<sup>®</sup> for the 2009 financial year were \$501,714, up 38% from the 2008 total of \$362,613. During the initial period of the licence with Merck, Antaria will toll manufacture Alusion<sup>®</sup> and other products for Merck. Antaria is currently working with Merck and Antaria's past customers to support the transition of its Alusion<sup>®</sup> cosmetics business.

### *Industrials*

Sales of Industrial products for the 2009 financial year were \$273,341 compared to the prior year total of \$96,218 (excluding an amount of \$181,218 relating to cancellation of a supply agreement with a prior customer).

The 2009 financial year saw the re-commencement of Cercat<sup>™</sup> sales, Antaria's cerium oxide fuel catalyst, via our Singapore-based partner Energenics. Subsequent to year end, Energenics placed an irrevocable order totalling US\$437,000 for the supply of Cercat<sup>™</sup> for progressive delivery during the 2010 financial year. When Energenics establishes a growing market demand for products incorporating our cerium oxide technology, Antaria may see Cercat<sup>™</sup> re-emerge as an important part of its business model.

### *Finance Revenue and Other Income*

During the year, interest income reduced from \$204,765 to \$94,750 in line with the Company's reduced cash position and falling interest rates.

Other income decreased 8% to \$614,093 from \$669,655 in the 2008 financial year. Commercial Ready grant income of \$552,092 was in line with the 2008 total of \$567,838. Grant income for the 2008 financial year also included an amount of \$101,817 in relation to the Export Market Development Grant and other grant income. Other income for the 2009 financial year also included \$26,746 of licence income and \$35,255 of miscellaneous income, predominantly insurance proceeds from the disposal of equipment.

## Gross Profit Contribution

Antaria's gross margin as a percentage of sales to customers increased to 21% in the 2009 financial year compared to 6% in the previous financial year.

This improvement in gross margin was a result of increasing sales volume, changes in product mix, and the positive full-year impact of the Company's overhead reduction and cash conservation initiatives. Cost reductions were achieved through the 2008 sub-leasing of excess factory and office space and a reduction in indirect labour.

The Company looks forward to further improvements in gross profit percentages with subsequent increases in its sales volume and higher utilisation of fixed production overheads.

## Expenses and Overheads

### *Cash Items*

Antaria's total expenses and overheads (excluding non-cash items) for the 2009 financial year were \$2,989,890 down 26% from \$4,053,414 in the 2008 financial year.

Expensed research, product development and scale-up costs increased by 1% from \$1,037,083 in 2008 to \$1,044,694 in 2009. Offsetting some of these costs is the Company's Commercial Ready grant for transparent functional coatings of \$552,092 compared to \$567,838 in the prior year.

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## Expenses and Overheads

### *Cash Items (continued)*

Antaria's cost base has significantly benefitted from the appointment of lead distributors in key regions who already have strong marketing support and infrastructure locally in their geographic territories. This has facilitated a decrease in sales and marketing expenses by 38% from \$1,443,124 to \$897,438. This decrease was mainly due to a significant reduction in labour and personnel expenses, travel costs, and lower marketing and advertising costs resulting from the implementation of our strategy to move to a distributor based selling model.

Corporate and other expenses decreased by 33% from \$1,573,207 to \$1,047,748. Significant reductions were achieved in cash labour costs through headcount reduction and the election of certain senior management to receive their remuneration by way of share issues under the Company's Salary Sacrifice Share Plan. Cost reductions were also achieved across a range of office, administrative and compliance costs.

### *Non-Cash Items*

Non-cash items for the 2009 financial year were \$1,589,347 and included:

- Depreciation and amortisation charges of \$755,957;
- Remuneration expenses (excluding the options expense) of \$336,471. This reflects certain elements of the remuneration received by non-executive directors and senior management (directors fees, performance bonus, and Executive Director/Chairman remuneration) by way of issues of Antaria Shares under the Company's Salary Sacrifice Share Plan;
- Options expense of \$43,297. There were no new options issued during the year;
- Unrealised foreign exchange losses of \$183,126 principally in relation to the revaluation of US dollar and Euro denominated unearned income and cash balances;
- Write-off of unutilised plant and equipment of \$182,908; and
- Write-off of certain patent and trademarks costs capitalised in prior financial years of \$87,588 as a result of the patents or trademarks being abandoned.

## Income Tax Credit

Income tax credit results from the recognition of deferred tax assets and liabilities on Antaria's balance sheet for the first time. The income tax credit for 2009 includes a one-off credit of \$3,808,992 in relation to the recognition of certain prior year tax losses which had not previously been brought to account.

## Salary Sacrifice Share Plan

At Antaria's 2007 AGM, shareholder approval was obtained under ASX Listing Rule 10.14 to allow Antaria to issue up to 8,800,000 shares to directors under Antaria's Salary Sacrifice Share Plan (the Plan) over the 3 years from November 2006.

Through an administrative oversight, a number of shares have been issued to directors under the Plan in excess of the 8,800,000 limit. Immediately that Antaria became aware of this matter it informed the ASX. Following consultation with and the approval of the ASX, Antaria intends to rectify this situation by buying back the shares that were issued beyond this limit (being 2,479,290 shares) at the prices at which these shares were issued. The buy back will be subject to shareholder approval, which will be sought at Antaria's 2009 AGM.

Further information and the proposed resolutions will be included in Antaria's Notice of Meeting and Explanatory Memorandum for its 2009 AGM which is currently scheduled to be held on Monday, 16 November 2009.

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## **About Antaria**

Antaria Limited develops, manufactures and sells a range of advanced metal oxide powders and dispersions worldwide. Antaria's products include: **ZinClear**<sup>®</sup> – broad spectrum, mineral-only UV filters in cosmetic emollients used for sunscreen and skincare formulations that allow SPF 30+ sunscreens containing only zinc oxide as the UV absorber; **Cercat**<sup>™</sup> – cerium oxide particle dispersion used in diesel fuel applications; and **NanoZ**<sup>™</sup> – zinc oxide additives that allow stable UV absorber performance for coatings and plastics. In 2009, Antaria also exclusively licensed its plate-like alumina technology to Merck KGaA, Germany for use in Merck's cosmetics and industrial products.

## **For Further Information**

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