Annual Report and Accounts 2006

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Financial Highlights

	2006	2005
Turnover £m	**191.5**	188.2
Operating loss £m	**(11.6)**	(1.2)
Trading profit* £m	**5.5**	3.3
Loss before tax £m	**(14.5)**	(3.6)
Trading profit before tax* £m	**2.6**	0.9
Loss/(earnings) per share (p)	**(10.6)**	1.5
Trading loss per share* (p)	**(0.1)**	(0.1)

* Figures shown here and elsewhere in the report and accounts as 'trading' exclude impairment of assets of £13.7m (2004/05 £3.6m) and exceptional charges of £3.4m (2004/05 £0.9m) and, where applicable, the exceptional element of the taxation charge or credit for the period (£1.9m credit in 2006, £6.8m credit in 2004/05). Other figures are prepared under International Financial Reporting Standards (IFRS) and include impairments and exceptional charges, except for the parent company financial statements which are prepared under UK Generally Accepted Accounting Principles (GAAP). Trading figures are presented to provide a more meaningful indication of underlying business performance and trends. These are the primary performance figures used by management.

Comparative figures are shown in brackets.

Chairman's Statement

2005/06 showed a welcome improvement in operating profit before impairments and exceptional costs ('trading profit'), from the poor result of the previous year. This was due to cost savings, price increases and a reduction in low margin business. Sales were broadly in line with the prior year at £191.5m (2004/05 £188.2m). Trading profit was £5.5m compared to £3.3m last year, with £0.9m of the improvement due to a stronger US Dollar. After impairments of £13.7m (2004/05 £3.6m) and exceptional costs of £3.4m (2004/05 £0.9m), the operating loss for the year was £11.6m (2004/05 £1.2m loss).

Strategic Review

During the second half of the year we completed a major review of the Company. Scapa has good technology in the specialist adhesive tape market where technical performance and service are paramount and good margins are attained. Unfortunately a number of poorly performing acquisitions and investments in past years give us little room for manoeuvre and as a first step we have decided to sell a number of our peripheral operations to pay down our debt and improve our financial position. We intend to keep the role of all of our businesses within the Group under constant review.

In addition, we need to improve our existing business by significantly reducing both overhead and fixed costs in line with the size of the Group with some of this already achieved. Reorganisation costs of £2.8m were incurred in the year primarily to reduce our cost base in the UK with annual savings of £2.6m. This included the closure of our Blackburn head office and relocation to our Ashton factory site. Furthermore a full review of goodwill and asset carrying values of previous acquisitions and investments at the end of the year identified the need for an additional impairment of £13.7m.

Finally, we are hampered by two legacy issues – asbestos litigation and pensions. Due to their significance these issues continue to absorb most of our free cash flow and as a consequence, their resolution will largely determine our future. Negotiations with our pension fund trustees and the regulator will be a key task following the latest triennial valuation as at 1 April this year. The outcome needs to enable the Company as far as possible to fulfil promises made to fund members, though on all sides compromises will need to be made. In addition, with our successful strategy on asbestos litigation we have commenced discussions with our insurers with a view to them bearing more of the financial load and we continue to look at options for closing out this liability.

Given all of the above and considering the size of our Group, the Board considers it appropriate for the Company to move from the main market to AIM in view of the lower costs particularly for disposals. Approval from shareholders for the move to AIM will be sought at the forthcoming Annual General Meeting.

Finance

Strict cash management has remained a key objective throughout the year. Substantial cash payments were needed for asbestos litigation (£1.4m) and pensions (£3.0m). Trading working capital increased by £2.6m due to the combination of rising sales volumes in the last quarter as well as some tightening of supplier payment terms. Cash inflow from operations was £2.1m (2004/05 £1.5m) before capital investment of £2.7m (2004/05 £4.6m) and the release of US$10m (£5.7m) from the Waycross deposit. Net debt excluding the remaining US$10m in the Waycross deposit was £13.2m (31 March 2005 £15.2m). After exceptional costs and goodwill and asset impairments, the loss before tax was £14.5m (2004/05 loss £3.6m). No final dividend is proposed.

The Group's defined benefit pension scheme deficits have increased by £17.8m to £63.4m. This was due primarily to more cautious mortality assumptions and a reduced discount rate, partially offset by an increase in the value of pension scheme assets.

US Litigation

We continue to defend personal injury claims in the USA from alleged exposure to asbestos that relate to a business we sold in 1999. As we reported in our Interim Statement the award of US$3.0m made against Scapa in October 2003 was reversed on appeal in November 2005. The appeal continues against a second adverse verdict in Louisiana of US$162,500 in February 2005. An appeal against a favourable verdict for Scapa in May 2005 in Baltimore, was rejected by the court in March 2006. In May 2006 we won an important case in Philadelphia in which a former papermill worker had claimed to have mesothelioma.

The Board

During the year there were a number of changes to the Board. Tony Watson resigned as Director with effect from 1 June 2005. Richard Perry, the Finance Director of Fenner plc, was appointed as a Non-Executive Director with effect from 1 June 2005 and became Chairman of the Audit Committee on that date. Calvin O'Connor, previously Managing Director of British Vita's Industrial Polymers business, was appointed Chief Executive on 10 October 2005. At our Annual General Meeting on 25 July 2006, Michael Baughan and Sarkis Kalyandjian will retire from the Board. Their experience has been of great value to the Group during this difficult period and I would like to thank them for their wise counsel and contributions. The Board will look for a further Non-Executive Director in due course.

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.

Outlook

As we start our new financial year there has been a weakening of the US Dollar and continuing upward pressure on raw material prices linked to the current high level of crude oil. This, together with some subdued demand in certain markets, means that full margin recovery remains an ongoing area of focus.

Trading in April and May has been in line with expectations. The major initiatives now in place following our internal reviews give us confidence that key ongoing and legacy issues are being actively addressed with greater emphasis on areas of under-performance and narrowing of our business spread. Much remains to be done, however, to restore our performance to an acceptable level.

K G G Hopkins
Chairman

Business Review

Operations

Scapa's Business

Scapa is one of the leading technical adhesive tapes and specialist cable compound manufacturers in the world with manufacturing and sales operations in twelve 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 the year we completed a major review of business performance 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 which has culminated in the proposal to sell our Megolon compounding operations for cash of £16.75m, subject to normal due diligence and shareholder approval, as well as our loss-making Irish distribution business for £1.0m in cash. In 2005/06 the Megolon business had sales of £20.3m and an EBITDA of around £2.0m. Net assets at 31 March 2006, included in the deal, amounted to approximately £7.1m.

The second outcome of the review was an extension of our major operating cost reduction programme. The next stage will follow the proposed disposals at an estimated cost of £1.0m with additional annual savings of £1.2m. Total expenditure over the three phases of the programme amounts to £3.8m, with estimated total annual savings of £3.8m. Relentless cost reduction will continue to be the way of life at Scapa and will take several years to fully complete.

The final outcome from the review was the need to find a more equitable balance for the business in relation to the cash legacy costs of the pension deficit and asbestos litigation. Detailed discussions to facilitate this will be a major part of the year ahead.

2005/06 Performance

Overview

Sales in 2005/06 rose by 2% to £191.5m (2004/05 £188.2m). Trading profit increased by £2.2m to £5.5m, giving an operating margin of 2.9%. This improvement was helped by the strengthening US Dollar which appreciated by 3% on average during the year against Sterling and which contributed £0.9m of the increase. At constant exchange rates, sales reduced marginally by 0.6% (£1.1m) and trading profit increased by £1.3m. Raw material price increases, which began in the second half of 2004/05, continued to be a challenge to margins in 2005/06. Sales price increases were implemented throughout the year across most market sectors and recovered the majority of our raw material cost increase. Reorganisation costs of £2.8m were incurred in the year primarily to reduce our cost base in the UK with annual savings of £2.6m, resulting in a reduction by 54 of the number of employees at the end of the year.
This included the closure of our Blackburn head office and relocation to our Ashton factory site.

North America

North American sales for 2005/06 were £66.7m compared with £64.1m last year, a growth of 4.1%, helped by a stronger US Dollar. At constant exchange rates sales were just under 2% lower, due to the loss of a low margin automotive contract. Trading profit was 8% ahead of 2004/05, at £7.7m, including £0.4m benefit from the stronger US Dollar. Trading margin increased by 0.4% to 11.5%.

Industrial sales grew substantially year on year due to new product launches and winning new customers. Automotive sales declined after the loss of a large, low margin, customer. Cable wrapping tape sales were also down due to lower than expected demand by the telecommunications industry. As a consequence, at the year end, following a goodwill and asset carrying value review, the goodwill and some of the assets used by the Lusa cable wrapping tape business, which was acquired in 2001, were written down.

Raw material prices continued their upward trend during the year averaging around 7% with, in addition, substantial price hikes to utility costs. Sales price increases helped to mitigate the impact of these increases. Operating costs were reduced significantly year on year, including the full year benefit from the closure of the Mansfield site in late 2004/05 and its consolidation onto our Renfrew facility in Canada. Other savings were achieved through targeted capital investment and employee productivity improvements.

Trading working capital levels remained consistent with the prior year whilst capital investment was significantly lower, with investment focused on health and safety and short-term cost reduction projects. In the previous year significant investment was directed towards the consolidation of the cable wrapping tape business. 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 our underlying organic sales growth will continue, further leveraging the fixed cost base. Raw material and utility costs remain a concern. Recovering these additional costs by increased selling prices and further cost reduction measures is essential to maintaining margins.

Europe

Following Steve Lennon's appointment as Chief Operating Officer in 2004/05 the European management team was restructured. Under Steve's direction the European and North American management teams have since fostered closer working relationships, thereby sharing their respective strengths. This has been of particular benefit to Europe. The transfer of a North American commercial manager to head both the European sales and product development teams has led to improvement in sales and a more focused commercial approach to new product development.

Over the last year the European business has replaced a matrix management structure with an emphasis on business units to site based profit accountability. During this period operational management has been strengthened, particularly in the UK. As a consequence of these actions there is now a

fresh focus on individual site performance and clearer accountability with detailed improvement plans in place.

The effect of implementing these changes, together with the promotion of the region's 'Customer Now' initiative, has brought about a step change in delivery performance and enhanced customer service levels throughout 2005/06. As a direct result sales have begun to recover during the year with overall sales growth of 1.6%. This recovery was most evident in the second half where sales improved by 4.4% over the first half of the year and were 5.3% higher than in the second half of 2004/05 (at constant currency). Trading profit improved by £1.1m, moving from a loss of £0.4m in 2004/05 to a profit of £0.7m in 2005/06. The most significant improvements were achieved at the loss-making Italian and Ashton (UK) sites.

All market sectors experienced sales growth apart from medical. The most significant improvements were in the cable and automotive sectors, benefiting from new cable tape contracts and new automotive products as well from sales price rises. A shortage of new medical development projects over recent years has led to a downturn in medical sales. Targeted sales price increases were achieved across all market sectors, effectively offsetting increases in raw material prices in the year of over 3%, driven up by rising oil and gas costs. Utility costs were also significantly higher with a £0.5m increase over the prior year, mostly in the second half.

Following a review of European operations in the first half, cost reductions were implemented that generate annualised savings of around £1.5m. Additional cost savings initiatives were also taken in the second half of the year with a projected annualised saving of £0.5m and at a cost of £0.3m.

In a review of goodwill and asset carrying values for European loss-making businesses residual goodwill associated with the Medifix medical business acquisition in 2001 and that associated with the CCL cable tapes acquisition in 2001 was written down following a deterioration in performance of these businesses.

Working capital was higher at March 2006 due largely to the higher sales volumes in the last quarter, which were 5% ahead of the prior year. In addition trade creditors moderated a little in line with payment terms. Capital investment was focused primarily on automatic conversion equipment.

European sales will be increasingly focused on exploiting niche geographic and end-user opportunities. New product development is being restructured and managed to support these objectives, following a number of years of under-performance. The continued pressure of raw material price increases and resulting impact on margins remains an area of emphasis with the business committed to passing on raw material price increases.

Asia

The performance in Asia was disappointing with sales falling by £1.1m to £7.7m (2004/05 £8.8m). On a constant exchange basis sales fell by £1.8m. As a consequence of the lower sales, operating profit fell from £0.5m in 2004/05 to a loss of £0.1m. The loss of a key high margin contract was a significant contributor to this shortfall. The appreciation of the Korean Won and higher investment in new product development were also factors in reducing Asia's profits. In view of our poor ongoing performance in Korea asset carrying values have been reviewed and written down accordingly. During the last 18 months we have built up a strong distribution network and now look to leverage this with the opportunities available to us in the region. Our focus however is now directed towards profitable growth rather than higher volume.

Corporate

Corporate costs in the year reduced by £1.1m, the result of the closure of the corporate headquarters in Blackburn and consolidation of the corporate team into the Ashton site, together with a favourable £0.5m benefit arising from changes in the value of certain financial instruments. The associated costs of closure of the headquarters totalled £0.7m with annual savings of £0.4m.

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 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. We are pleased to report that this wholly unexpected judgement was subsequently reversed on appeal on 17 November 2005 and the plaintiff's further appeal has been denied. The plaintiff has applied for a retrial but it is unlikely that any court hearing will take place before 2007. Another adverse verdict was entered in Louisiana in February 2005 awarding in total US$162,500 plus costs and interests to seven plaintiffs. The Company has appealed against the judgement but the judicial process in Louisiana has been severely disrupted by the effects of Hurricane Katrina and it is not yet known when the appeal will be heard.

During May 2006 a jury trial took place in Philadelphia, Pennsylvania, of a claim by a retired papermill worker who alleged he has mesothelioma. The court rejected the plaintiff's claim and dismissed the case.

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 2005/06 the largest single customer represented less than 4% of total Group sales.

The Registration, Evaluation and Authorisation of Chemicals (REACH) legislation has still to complete its second reading in the European Parliament, with projected enactment during 2007. It prescribes for specific hazard testing for all chemicals manufactured or imported into the EU, placing the responsibility on the manufacturer or importer, to satisfy

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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 schemes with significant funding deficits. The three schemes are being revalued during 2006 based on the position as at 1 April 2006, and new contribution funding levels will have to be negotiated with the trustees. The pensions 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. The Company will be aiming to negotiate a mutually satisfactory but affordable outcome with the trustees and the regulator. At this stage however it is not possible to predict the outcome of these negotiations.

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 2% ahead at £191.5m (2004/05 £188.2m) but were broadly unchanged on constant currency. Second half sales grew by 3% against the first half helped in part by a favourable movement in the US Dollar.

Trading operating profit was £5.5m (2004/05 £3.3m), an increase of £2.2m, of which £0.9m was contributed by a stronger Dollar. Operating cost savings were the main contributors to the improvement in profit and more than offset significant increases in utility costs. The operating loss for the year was £11.6m (2004/05 £1.2m loss) after impairments of £13.7m (2004/05 £3.6m) and exceptional costs of £3.4m (2004/05 £0.9m).

Reorganisation costs

Reorganisation costs and exceptional provision increases totalled £3.4m (2004/05 £0.9m). Of this £2.8m was incurred in connection with redundancies across the Group and the closure and relocation of the UK head office. A further £0.6m related to an increase in dilapidations provisions at certain UK leased properties and an increase in an onerous lease provision.

Goodwill and asset impairments

Arising from the IAS 36, 'Impairment of Assets' annual review the residual goodwill on the following acquisitions was written off:

- Lusa cable wrapping tapes (acquired in 2001) – £2.6m
- CCL cable tapes (acquired in 2001) – £1.6m
- Medifix/Boldscope medical tapes (acquired in 2000) – £6.7m

In addition the carrying values of certain fixed assets at a number of sites has 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 written down was £2.8m and related to our Korean operations, the UK sites at Dunstable and Ashton, and to certain assets associated with the Lusa business based in North America.

Interest

Net interest payable was £1.0m, (2004/05 £0.7m). The benefit from lower average levels of debt was more than offset by higher average interest rates. Interest cover, being trading profit before finance costs and tax as a ratio of interest paid on net borrowings, was 5.5 times covered.

The IAS 19, 'Employee Benefits' pensions finance charge was £1.4m (2004/05 £1.2m). The accounting discount on long-term provisions was £0.5m (2004/05 £0.5m).

Profit before tax and taxation charge

Statutory loss before tax increased, by comparison with the prior year, to £14.5m (2004/05 loss of £3.6m), reflecting the impact of the impairments which totalled £13.7m. Trading profit before tax after all finance charges was £2.6m (2004/05 £0.9m).

The tax charge of £0.8m included an underlying overseas current year tax charge of £2.8m offset in part by deferred tax credits associated with the North American goodwill and asset impairments, as well as the release of provisions no longer required. 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 pensions deficit has an associated tax asset of £17.8m which has not been recognised in the accounts, as there is little expectation of this being utilised in the near term.

Loss per share was 10.6p (2004/05 profit of 1.5p 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 £6.3m (2004/05 £3.7m). Trading working capital increased by £2.6m (before exchange movements) in the year to 31 March 2006 due primarily to an increase in sales volumes in the last quarter together with a reduction in creditor levels, which moderated a little in line with payment terms. Payments into the pension funds in excess of the charge to profit totalled £3.0m (2004/05 £3.0m) and reorganisation spend was £2.4m (2004/05

£0.9m). Asbestos litigation defence payments totalled £1.4m (2004/05 £1.1m) with higher costs in the first half, a consequence of greater legal activity. The run rate subsequently settled back to a level consistent with previous years. Capital investment was substantially lower than the prior year at £2.7m (2004/05 £4.6m) and reflected strict management of expenditure. The net cash flow from operating activities, after all investing activities but before the release from the Waycross deposit, was an outflow of £2.9m (2004/05 £1.4m outflow).

In September 2005 an agreement was reached with J M Voith AG to make a release of US$10m (£5.7m) from the Waycross deposit. The remaining balance of US$10m (£5.7m) will now be held for an additional two years until 31 December 2011. With the benefit of this release the Group's net cash movement was an inflow of £2.8m (2004/05 £1.4m outflow), which after adjusting for the effects of foreign exchange translation, resulted in a reduction in net debt (excluding the remaining Waycross deposit of £5.7m) of £2.0m to £13.2m.

The IAS 19 pensions deficit as at 31 March 2006 was £63.4m (31 March 2005 £45.6m). This increase was a consequence of a lower discount rate and more conservative mortality assumptions, offset in part by improvements in the value of assets. The next triennial revaluation of the UK pension schemes is being carried out based on the position at 1 April 2006.

The impact of the impairments together with the increase in the pension deficit reduced shareholder funds at 31 March 2006 to £8.2m (31 March 2005 £40.2m). Currency translation at the year end had a £2.3m favourable impact on shareholder funds (2004/05 £1.3m favourable).

Change in International Financial Reporting

The Group adopted International Financial Reporting Standards (IFRS) as from 1 April 2004. Consequently prior year comparatives have been restated in accordance with these standards. The impact of these adjustments on prior year financial information was disclosed in the Group's IFRS restatement announcement issued on 31 October 2005 and posted on our web site. A summary of the impact on the Income Statement and on equity is given in note 26 to these accounts.

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 Group treasury activities and seeks to reduce financial risk, ensure sufficient liquidity is available to the Group 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 2006 the Group had committed facilities of £25.0m, of which £13.5m were utilised. The Group also had uncommitted short-term and overdraft facilities of up to £15m in the UK and overseas, of which £2.5m were utilised at 31 March 2006. The term of the committed facility has been re-negotiated so that it now extends out to 30 September 2007. This facility has been secured on substantially all of the Group's principal fixed and floating assets. Further details on the Group's debt maturity profile are shown in note 19 to the accounts. These facilities are projected to cover peak forecast borrowings for at least a twelve-month forward period. All bank covenants were complied with.

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 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%.

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.

As described in note 28 to the accounts 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

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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.

Environment and Health and Safety

Policy

Scapa has a clear policy on environmental care and health and safety and it continuously strives to:

- Introduce and integrate Product Life Cycle analysis into our Design and Manufacturing processes through the new product development process.
- Minimise our impact on the world's natural resources through a continual programme to reduce the amount of material and the level of energy consumed by our manufacturing processes.
- Reduce to a minimum the amount of waste material, such as packaging and paper, generated within the plant's administrative and manufacturing processes.
- Maximise the amount of process waste material reused or recycled in order to minimise the amount sent to land fill.
- Implement our environmental policy, principles and attitudes throughout the total supply chain.
- Consider existing environmental legislation as the minimum standard to be achieved and as the foundation for continuous improvement programmes.
- Educate, train and motivate employees to understand the need to conduct their activities in an environmentally responsible manner.
- Publicly communicate our Environmental policies and our performance against the Environmental objectives and targets set by Scapa.
- Provide a safe and healthy working environment for its employees.

2005/06 performance

Scapa as a Group recognises the importance of managing the consumption of the world's natural resources as well as providing a safe and healthy working environment for its employees. This initiative starts with the commitment of the Group management to set targets, provide training and awareness programmes and assign responsibility and targets across each regional management team.

To measure progress of Scapa's environmental and health and safety programmes, the Group has employed a third party internal audit system (Marsh Trendtracker) on a semi-annual basis. Each site is audited by a trained individual with results reported to all management levels up to and including the Board of Directors. Progress is achieved through the cooperative effort of all employees with leadership by site management, local specialists outside support groups and corporate experts. Further to this, each site has established a group of Key Performance Indicators (KPI) to track and report progress of environmental and health and safety programmes on an ongoing basis. KPI results are reported on a monthly basis with metrics openly posted within operations.

Progress on these key measures has been as follows:

Environment

Air emissions

Objective: to continue with our programme to reduce the release of Volatile Organic Compounds (VOCs) to atmosphere.

Target set in 2004/05 was to reduce the release of VOCs to the atmosphere by a further 5% by 2005/06. This was achieved with a total reduction since 1999/00 of 63%.

2006/07 Target: To maintain current level of performance and implement programme to reduce a further 10% from 2005/06 levels by 2010 (adjusted for sales volume).

The very significant improvement over the past five years has been achieved through major investment in modern thermal oxidiser equipment at all major sites utilising solvents. Further investments to upgrade and replace thermal oxidisers are planned for the next two years. At this point, we have maximised potential with this approach and currently exceed all legislated requirements. Scapa's 2006/07 goal will be to maintain these high efficiencies and continue to work towards improving on legislative requirements. Scapa will develop alternative adhesive coating technologies that will eliminate some of the use of solvents.

Solvent purchases

Objective: to continue with our programme to reduce the volumes of solvent used across the Group.

Target set in 2004/05 was to reduce the volume of solvent purchases by a further 5% by 2005/06. This objective was achieved with a total reduction since 1999/00 of 13%. All solvents used for adhesive coating systems were either reclaimed or processed through regenerative thermal oxidisers to eliminate discharge to the environment. Future purchases will largely be dependent on sales volume and development of alternative coating processes outlined in the solvent emissions. We expect to reduce solvent purchases by a further 10%, adjusting for volume sales growth by 2010.

Oil consumption

Objective: to continue with our programme to reduce the consumption of oil across the Group and accordingly reduce our impact on fossil fuel demands.

Target set in 2004/05 was to reduce the volume of oil consumption by a further 3% by 2006/07. Oil consumption is only used in a limited number of our facilities and in general for heating only, with the exception of one Asian facility. Our overall usage increased last year due to increased volumes and severe weather conditions. Scapa's total reduction since 1999/00 is 59%. Our target is to reduce the volume of oil consumption by 3% over the next two years adjusted for increased sales volumes.

Gas and electricity consumption

Objective: to reduce the impact the Group has on energy demands by promoting energy efficient processes and energy conservation.

Target set in 2004/05 was to reduce gas and electricity consumption by a further 5% in 2005/06. Actual achievement was a reduction of 2% in electricity and unchanged

gas consumption from 2004/05. Overall changes since 1999/00 are a 12% reduction in gas and a 9% increase in electricity. 2006/07 target is to reduce gas and electricity consumption by 5% from 2005/06 levels adjusted for increased sales volume.

Scapa's aggressive programme to replace the consumption of oil (59% reduction since 1999/00) with more environmentally friendly natural gas and electricity led to limited progress in this area. Increased demand for energy intensive products such as Megolon and for products requiring electricity and gas for process heating (such as polyethylene tapes and water blocking tapes) has adversely impacted energy demand. All sites continue to maintain extensive energy conservation programmes utilising devices such as improved electronic components such as capacitors for power factor, heat recirculation systems and high efficiency lighting. As well, strict management control is employed for areas of energy use such as lighting, heating and production systems.

Packaging materials

Objective: to develop new protocols which will achieve reductions in packaging waste.

Target set in 2004/05 was to continue to develop packaging rationalisation programmes so as to achieve a further reduction in utilisation of 5% in 2005/06 after taking into account sales volumes. In 2005/06 we have seen little improvement due to legislative requirements for smaller packages limiting maximum weight for safety reasons. Overall reduction since 1999/00 is 31%. 2006/07 target is to reduce packaging materials utilisation by 4% adjusted for sales volume.

Health and Safety

Scapa Group is committed to reinforcing and improving health and safety activities within all sites to ensure the constant well-being of our employees. Standards of performance are set by the Senior Executive Team (SET) and are monitored by the Board. The SET is responsible for providing guidance, focusing on best practices and overseeing auditing of our manufacturing sites and processes. Scapa continues to invest significantly in human resource training and development for safety management. Equally important has been the high level of capital expenditure in projects focused on eliminating risk for employees and reducing the impact of our products and processes on the environment.

Key metrics monitored by the Board include:

Lost time accidents: 2005/06 objective: a reduction of 10% over 2005 results.

With continued focus from the entire Group we almost doubled the target with a 19% reduction of lost time accidents.

Lost time days: 2005/06 objective: a reduction of 10% over 2005 results.

Improvement was exceptional this year with a total reduction of over 35% change in Europe and 80% in North America.

Reportable accidents: Reportable accidents are those that must be reported to an external governing body under strict legislative procedures.

2005/06 objective: a reduction of 10% over 2005 results.

A 20% overall reduction was achieved in the year.

2006/07 goals:

The ongoing goal for all Scapa sites remains to be zero accidents and zero lost days. We believe strongly that establishing goals any less than this target would send the message that some level of injury due to work related accidents is acceptable.

The Board

C J O'Connor Age 53
Chief Executive

Calvin O'Connor joined the Board as Group Chief Executive on 10 October 2005. Calvin has extensive industrial experience covering a wide range of international markets and products. His initial career was with Courtaulds plc before joining British Vita PLC in 1996 as Finance Director. From 2001 until 2005 he was the Managing Director of Vita's £400m Industrial Polymers business.

S D Lennon Age 55
Chief Operating Officer

Steve Lennon joined Scapa in 1990 and was appointed to the Board on 1 February 2005 as Chief Operating Officer with responsibility for all commercial and operational activities in the European, North American and Asian regions of Scapa. Steve was President of Scapa Tapes North America and previously worked for Touche Ross & Co where he held a variety of general management, operational and financial positions.

C M White Age 44
Finance Director

Colin White joined Scapa as Group Finance Director on 3 December 2001. He was previously with TI Group plc for over 10 years where he held a variety of financial positions, the most recent being Finance Director of the Dowty Aerospace Division of TI Group from 1998 to 2001.

M R Stirzaker Age 50
Company Secretary and General Counsel

Mark Stirzaker is a UK qualified solicitor and joined Scapa in January 2006 with responsibility for its company secretarial and legal affairs worldwide. He has extensive experience of commercial legal matters in manufacturing industry, having previously been Head of Legal at British Vita PLC for over 20 years.

K G G Hopkins° Age 61
Non-Executive Chairman

Dr Keith Hopkins joined the Board on 7 January 2002 after a distinguished career of over 30 years in the global chemical industry. He became Chairman of Scapa on 31 March 2002. He was previously Group Chairman of Croda International plc, Group Chairman of Ellis & Everard plc and a Non-Executive Director of Tate & Lyle plc.

M C Baughan*§° Age 64
Non-Executive Director

Michael Baughan was a Managing Director of Lazard Brothers & Co. Limited from 1986 to 1999. He was appointed to the Scapa Board in July 1994 and is currently the Senior Independent Director.

S Kalyandjian*§° Age 67
Non-Executive Director

Sarkis Kalyandjian is an American national who joined the Board on 1 April 2001. He is a former Executive Director of GKN plc and has over 35 years experience of international manufacturing and general management. He is also a Non-Executive Director of Wagon Plc, a UK listed company.

R J Perry*§ Age 56
Non-Executive Director

Richard Perry is currently Group Finance Director of Fenner plc to which position he was appointed in 1994. He was formerly a senior audit partner with PricewaterhouseCoopers. Richard was appointed to the Scapa Board on 1 June 2005.

Board Committees

* Audit Committee
§ Remuneration Committee
° Nominations Committee

Accounts

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Report of the Directors

The Directors present their Annual Report and Accounts for the year ended 31 March 2006.

Principal activities and business review

Scapa Group plc is the holding company for a group of companies operating in the manufacture and supply of technical tapes and cable compounds. A review of the development of the Group's business is contained on pages 2 to 7 and forms part of this report and complies with the Companies Act 1985.

Results and proposed final dividend

A loss before tax of £14.5m (2005 £3.6m) was recorded for the year ended 31 March 2006, with basic and diluted loss per share of 10.6p (2005 earnings per share of 1.5p).

Trading profit, before tax and exceptional items of £17.1m (2005 £4.5m), was £2.6m (2005 £0.9m) with loss per share before exceptional items of 0.1p (2005 0.1p). No interim dividend was paid to shareholders (2005 0.1p). The Directors do not recommend the payment of a final dividend (2005 nil).

Post Balance Sheet events are discussed in note 27 to the Accounts.

Annual General Meeting

The Annual General Meeting will be held on 25 July 2006 at 20 Moorgate, London, EC2R 6DA. Details of the business to be considered at the Annual General Meeting and the Notice of Meeting are included in a separate document, enclosed with this report.

Purchase of own shares

At the forthcoming Annual General Meeting the Directors will once again seek shareholders' approval, by way of special resolution, for the grant of an authority for the Company to make market purchases of its own shares. The authority sought will relate to up to approximately 10% of the issued share capital and will continue until the Company's next Annual General Meeting. The Directors consider that the grant of the power for the Company to make market purchases of the Company's shares would be beneficial for the Company and accordingly they recommend this special resolution to shareholders. The Directors would only exercise the authority sought if they believed such purchase was likely to result in an increase in earnings per share and it would be in the interests of shareholders generally. The minimum price to be paid will be the shares' nominal value and the maximum price will be no more than 5% above average middle market quotations for the shares on the five days before the shares are purchased.

Board of Directors

The names of the present Directors and their biographical details are shown on page 8. Mr Baughan and Mr Kalyandjian have both indicated their intention to retire at the Annual General Meeting and will not be seeking re-election.

The Articles of Association require each Director to retire and offer himself for re-election by shareholders at least every three years, and also require a minimum of one-third of the Directors to retire by rotation each year.

There are no Directors who are required to retire under the three-year rule. The Director retiring in satisfaction of the rotation rule is Mr White. Mr O'Connor was appointed as Chief Executive on 10 October 2005 and under the Articles of Association is required to retire as a Director at the Annual General Meeting and seek re-election by shareholders. The Board has evaluated the performance and effectiveness of Mr O'Connor and Mr White, and recommends them for re-election.

The interests of the Directors in the shares of the Company as at 31 March 2005 and 31 March 2006 are shown in the Directors' Remuneration Report as are details of the Directors' service contracts or letters of appointment.

Alternative Investment Market (AIM)

The Board has for some time been considering the possibility of a transfer of the issued share capital of the Company from the Official List to AIM. In the light of the recent changes to the regulatory environment for companies on the Official List, the Board now believes that AIM is a more appropriate market for a company of Scapa's size and resources. It will reduce costs, simplify administration and being on AIM will also enable the Company to react more quickly should acquisition, disposal or other development opportunities arise.

AIM was launched by the London Stock Exchange in 1995. The market was and remains specifically designed for smaller companies and provides a simplified regulatory environment.

The obligations of an AIM company are similar to those of a company on the Official List with certain exceptions, of which the significant ones are:

- Under the listing rules of the UK Listing Authority, a broad range of transactions require shareholder approval. For AIM companies, prior shareholder approval is only required for reverse-takeovers and disposals that result in a fundamental change of business (transactions that exceed 75% of various size tests, such as the ratio of the consideration of the transaction to market capitalisation).
- There is no requirement under the AIM Rules for admission documents for further issues of securities, except as otherwise required by law or on an admission of a new class of securities to trading.
- Under AIM Rules, a Nominated Adviser (NOMAD) is required at all times and has ongoing responsibilities to both the Company and London Stock Exchange plc. The Company's existing financial advisers, JPMorgan Cazenove, have agreed to act as the Company's initial NOMAD.

Employees and employment policies

Scapa is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, age, race, colour, nationality, ethnic or national origin, religion, disability, sexuality or unrelated criminal convictions.

Scapa applies employment policies which are believed to be fair and equitable and which ensure that entry into, and progression within, the Company is determined solely by application of job criteria and personal ability and competency.

Scapa aims to give full and fair consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who become disabled are given every opportunity and assistance to continue in their positions or be trained for other suitable positions.

Scapa recognises the importance of good communications with employees and acknowledges that there should be clear channels of communication and opportunities for consultation and dialogue on issues which affect both business performance and employees' working lives. As a global business, the mechanisms for achieving this aim vary between different countries and between different businesses within the Group but include in-house newsletters, bulletins and briefing sessions.

A European Forum exists which enables employee representatives in the UK and continental Europe to discuss overall business issues with senior management of the Group. The Forum holds at least one meeting a year, which is normally chaired by the Group Human Resources Manager and attended by members of the Senior Executive Teams.

Scapa has a combination of unionised and non-unionised operations across the world and is committed to fostering positive employee relations at all of its locations.

Training and links with the educational sector reinforce Scapa's commitment to employee involvement and development. Employees are also represented on the trustee boards of the Company's pension arrangements.

The Sharesave share option plan continues to give the opportunity to all UK employees with qualifying service to participate in the equity of the Company. As at 31 March 2006, 93 employees were members of the scheme with 967,491 options over shares.

Supplier payment policy

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The Company had no trade creditors at 31 March 2006.

Research & Development

The Group's spend on research and development is disclosed in note 3 and is focused on developing new derivative product applications for addressing and resolving customer and market requirements.

Health and Safety

One of Scapa's primary objectives is to achieve high standards of safety for its employees. Health and Safety is a standing item on Group Board Meetings and Senior Executive Team Agendas. Appropriate senior executives, managers and supervisors have defined responsibilities for health and safety and are expected to ensure that the Company's health and safety policy is adhered to. These responsibilities are reviewed regularly on a national and regional basis to ensure appropriate policy development.

Report of the Directors

Scapa continues to implement a programme of regular health and safety audits. These audits are undertaken across Scapa's manufacturing sites. The purpose of the audit programme is to ensure compliance with health and safety legislation, best safety practices and to aim to secure the well-being of everyone affected by Scapa's manufacturing operations. The health and safety audit was developed in conjunction with Marsh, the Company's former insurance brokers and risk management advisers, using the bespoke Trendtracker software. The software allows Scapa to continually improve the audit standard and benchmark compliance.

Business ethics

The Company requires compliance by its companies and employees with the laws and standards of conduct of the countries in which it does business. This includes legislation implementing anti-corruption conventions. Employees are required to avoid conflicts of interest regarding Company business, to act lawfully and ethically, and to be responsible for communicating in good faith non-compliance issues of which they become aware.

Political and charitable donations

It is not corporate policy to make any political donations and, accordingly, no political donations were made during this year. Charitable donations made during this year amounted to £6,632 (£16,668). The majority of charitable donations made, on a discretionary basis, are to organisations based in the vicinity of Scapa sites, especially organisations which support health, educational and performing arts causes.

Share options

Details of the Company's share capital and options over the Company's shares under the Company's employee share plans are given in note 22 of the accounts on page 58.

Major shareholders

The Company is aware that the following have an interest of 3% or more in the issued share capital of the Company, as at 1 June 2006:

	%
Third Advance Value Realisation Company Ltd	14.06
Silchester International Investors Ltd	12.61
UBS Global Asset Management	7.46
Howson Tattersall Investment Counsel	5.95
Legal & General Investment Management	5.67
Investec Asset Management	5.44
TRW Pensions Trust	4.87
Discretionary Unit Fund Managers	4.84
Cazenove Fund Management	4.83
M&G Investment Management Ltd	3.58

Auditors and disclosure of information to auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors will propose a resolution at the Annual General Meeting re-appointing PricewaterhouseCoopers LLP as auditors to the Company.

By order of the Board
M R Stirzaker, BA, Solicitor
Company Secretary
7 June 2006

Registered Office:
Manchester Road
Ashton-under-Lyne
Greater Manchester
OL7 0ED

Directors' Remuneration Report

This report describes the role and composition of the Remuneration Committee ('the Committee'), the Company's remuneration policy and the arrangements currently applicable for the remuneration of both Executive and Non-Executive Directors. The report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and also complies with the relevant requirements of the Listing Rules. A resolution to approve the report will be proposed at the Annual General Meeting 2006.

The parts of the report which are subject to audit by PricewaterhouseCoopers LLP are indicated with an asterisk.

Remuneration Committee

The Committee is comprised of the Non-Executive Directors of the Company, namely, Mr Kalyandjian (Chairman of the Committee), Mr Baughan and Mr Perry. The members of the Committee have no personal financial interest in the Company other than as shareholders and the fees paid to them as Non-Executive Directors. The Company Secretary acts as secretary to the Committee.

The Chairman and Chief Executive are not members of the Committee but are invited to attend meetings if appropriate. The Committee liaises with the Chief Executive regarding proposals concerning the remuneration of the Chief Operating Officer, the Group Finance Director and other specified senior executives. The Chief Executive is not present when the Committee considers issues relating to his remuneration.

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of the Executive Directors. The Committee determines the total remuneration packages for these individuals, including the recruitment terms, remuneration benefits, employment conditions, pension rights and any compensation payments on termination of office. The Committee also determines the remuneration framework for other specified senior executives. The Committee met four times in the year to 31 March 2006 and all members of the Committee attended each of the meetings.

Advisers

The Committee takes professional advice from within and outside the Company, principally from Deloitte and Touche LLP. Apart from providing remuneration advice in relation to the Company's executive incentive schemes, Deloitte and Touche LLP are the Company's internal auditors.

Remuneration policy

The Committee's policy for the remuneration of Executive Directors aims to:

- pay basic salaries which equate with those paid by other comparator companies of similar market capitalisation and business sector;
- provide executives with opportunities to increase their remuneration by the attainment of key short-term and longer-term objectives;
- encourage the holding of shares in the Company (including the retention of shares acquired via company share based plans);
- provide incentives which aim to align the interests of executives and shareholders and promote the creation of long-term value.

Components of remuneration

The components of the remuneration packages for Executive Directors are as follows:

Basic salaries*

This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the Committee in the light of individual performance and market comparisons for similar jobs. Factors considered for comparison purposes include company type and sector, measures of company size and degree of international scope. Any changes made to the Executive Directors' salaries normally take effect from 1 April. The basic salaries of the Executive Directors for the year ending 31 March 2006 are set out in the table on page 14.

Annual bonus*

The Company operates a bonus scheme for the Executive Directors and senior executives. Bonus payments are not pensionable. The basis of the Executive Directors' bonus scheme and the targets to be attained are reviewed annually by the Committee.

For the year ended 31 March 2006 the bonus scheme for Mr Lennon and Mr White was based on year-on-year improvement in operating profit. For each £500,000 improvement on operating profit for 2004/05 a sliding scale amount was pooled for distribution. The overall cap on bonus entitlement was fixed at 60% of basic salary as at 1 April 2005 with 40% relating to Group operating profit improvement and 20% to Group cash flow targets.

In respect of 2006/07, the Committee has decided that the focus of the bonus scheme should remain year-on-year improvement in operating profit plus an element relating to improvement in trading working capital. Accordingly, a sliding scale has been fixed based on an increment pool for each £550,000 improvement on operating profit for 2005/06. No payment will be made for achievement below that figure, and the

Directors' Remuneration Report

scale is targeted to provide a bonus entitlement as a percentage of basic salary as at 1 April 2006. In respect of Mr O'Connor the profit-related element is capped at 57.5% and the working capital related element is capped at 17.5%. In respect of Mr White and Mr Lennon these elements are capped at 45% and 15% respectively.

Benefits in kind*

In addition to pension provisions, Executive Directors are also entitled to Company car benefits, private medical insurance, permanent health cover and life assurance.

The elements of Executive Directors' remuneration for the year ended 31 March 2006 are set out in the following table:

	Basic salary (excluding pensions) £	Annual bonus £	Benefits in kind (excluding pensions) £	Total emoluments 2006 £	Total emoluments 2005 £
C J O'Connor (appointed 10 October 2005)	109,935	–	7,108	117,043	–
C M White	137,976	–	12,065	150,041	142,314
S D Lennon§	196,629	–	16,922	213,551	65,386
A L Watson (resigned 1 June 2005)	33,066	–	10,631	43,697	212,333
	477,606	–	46,726	524,332	420,033

§ Based in the USA

Dollar/Sterling exchange rates used are the average prevailing for the relevant year.

Mr Watson was also paid the sum of £198,396 (equating to one year's salary) as compensation for loss of office in accordance with the terms of a compromise agreement dated 1 June 2005.

Aggregate emoluments for all Executive and Non-Executive Directors for the year ended 31 March 2006 were £726,000. Aggregate emoluments for all Executive and Non-Executive Directors for the year ended 31 March 2005 were £525,646.

Pension arrangements*

In respect of Mr Watson, who retired on 1 June 2005, the Company pension plan aimed to provide a pension at age 60 equal to two-thirds of basic salary, reduced where service to age 60 is less than twenty years. Due to the length of his service with the Company, Mr Watson was not subject to the Inland Revenue cap limitation on the level of final remuneration. The benefit also includes a spouse's pension payable on a Director's death and a lump sum on death-in-service.

Pensions in payment for pensionable service accrued prior to 5 April 1997 are guaranteed to increase each year by 3% per annum. Pensions in payment for pensionable service accrued between 6 April 1997 and 6 April 2005 are guaranteed to increase each year by the Retail Prices Index with a maximum of 5% per annum and a minimum of 3% per annum. Pensions in payment for pensionable service accrued post 6 April 2005 are guaranteed to increase each year by the Retail Price Index with a maximum of 5% per annum. Any additional increases are at the discretion of the Trustees.

Mr O'Connor and Mr White are not members of a Group pension scheme and have made their own independent pension arrangements into which the Company paid contributions totalling £31,680 and £15,605 respectively for the year to 31 March 2006. Company contributions to the defined contribution plans in which Mr Lennon participates totalled £10,678 for the year to 31 March 2006.

Defined Benefit Scheme*

	Accrued pension at 31.05.05 (1) £	Increase in accrued pension during the year (2) £	Accrued pension at 31.03.05 £	Value of net increase in accrual in the year (net of contributions) (3) £	Transfer value of accrued pension at 31.05.05 (4) £	Transfer value of accrued pension at 31.03.05 (4) £	Increase in transfer value in the year (net of contributions) (5) £	Contributions paid £
A L Watson	98,769	573	98,196	4,791	1,235,418	1,248,946	(15,512)	1,984

Notes

(1) The figure shown represents the amount for annual pension benefits based on service and pensionable earnings which were preserved for Mr Watson when he left service on 31 May 2005.

(2) The figure represents the difference between the total accrued pension at 31 May 2005 and the corresponding pension two months earlier.

(3) The figure represents the transfer value, as of 31 May 2005, of the increase in the accrued pension of £573 less contributions paid by Mr Watson.

(4) Transfer values are quoted on the basis recommended by the Scheme Actuary for valuation of accrued benefits if the member had transferred benefits to another approved scheme on the relevant date. The transfer basis is the same as the basis used last year. The method of reducing the value of the benefits to allow for the current funding position of the Scheme has been changed, but this has been ignored for the purposes of the calculations.

(5) The figure represents the difference between transfer values of the accrued benefits at 31 May 2005 and 1 June 2005, less contributions paid by Mr Watson.

(6) The increase in accrued pension during the period and the value of the net increase in accrual (net of contributions) in the period make no allowance for inflation. The amounts to be disclosed if inflation at 0.3% on the accrued pension at 31 March 2005 is offset against these figures would be £278 and £1,334 respectively.

(7) The transfer values disclosed above have been calculated in accordance with Actuarial Guidance Note GN11. The transfer values disclosed do not represent a sum paid or payable to the individual Director and cannot therefore meaningfully be added to annual remuneration. Instead they represent a potential liability of the pension scheme, not a cash payment by the Company.

Defined Benefit Scheme – USA

	Accrued pension at 31.03.06 £ p.a.	Increase in accrued pension during the year £ p.a.	Accrued pension at 31.03.05 £	Value of net increase in accrual in the year (net of contributions) £	Transfer value of accrued pension at 31.03.06 £	Transfer value of accrued pension at 31.03.05 £	Increase in transfer value in the year (less director's contributions) £
S D Lennon	41,417	12,299	29,118	71,516	309,536	201,152	108,383

Notes

(1) Mr Lennon is eligible to receive benefits under three separate defined benefit plans in the US: one qualified plan and two non-qualified plans. The results shown above are the sum total of these three plans. These plans do not allow the participant to make contributions to the plan.

(2) The accrued pensions are the amounts which would be paid if the Director left service at the relevant date, but ignoring any vesting or eligibility requirements under the plan.

(3) Inflation imbedded in the accrued benefit amounts has been assumed to be zero for the purpose of calculating the increase in accrued pension net of inflation.

(4) The employer makes contributions to the qualified plan, but these contributions are not allocated to any specific plan participant. The two non-qualified plans are unfunded from the plan's perspective. However, a rabbi trust does exist for these two plans and Scapa has made contributions to the rabbi trust. These contributions belong to the Company and not the participant.

(5) The concept of transfer values does not exist in US defined benefit plans. However, these three defined benefit plans do allow the participant to receive a lump sum benefit if they meet certain eligibility requirements. The lump sum benefits under these three plans have been calculated using the provisions outlined under each plan, but ignoring these eligibility requirements. The calculation of lump sum benefits is regulated by the IRS for qualified plans. The Scapa non-qualified plans use the same provisions for calculating lump sum benefits as the qualified plan.

Executive Share Options*

The Scapa Group 1994 Executive Share Option Plan is an approved Inland Revenue scheme, for options granted to UK residents with an aggregate value not exceeding £30,000. All other grants of options over and above the £30,000 threshold and those made to overseas employees are granted under the unapproved part of the scheme. Options granted only become exercisable, in normal circumstances, three years after the date of grant and then may only be exercised if certain performance criteria are met. Options remain exercisable until the tenth anniversary of their date of grant, after which time they lapse. None of the terms and conditions of the executive share options plans were varied during the year.

Directors' Remuneration Report

Under the 1994 US Stock Option Plan, options may be granted over shares at the prevailing market price and are exercisable between the third and tenth anniversary of grant, provided certain criteria have been met. Options granted prior to 22 July 1999 are exercisable if a performance target of improved earnings per share being 2% greater than the change in the RPI over a three-year consecutive period is met.

Options granted since 1999 under the 1994 Executive Share Option Plan and 1994 US Stock Option Plan are only exercisable if the following criterion is satisfied: an option may only be exercised on any particular day (and to the extent specified) that the Company's ranking compared to the ranking of FTSE Small Cap companies (excluding investment trusts) in terms of total shareholder return (TSR) over the previous three-year period is at least in line with the following table:

Position of the Company compared to FTSE Small Cap Companies in terms of TSR increase	**Percentage of Option which may be exercised**
Median	40%
Between 51st and 74th percentiles	Pro rata on a straight line basis between 42.4% and 97.6%
75th percentile and above	100%

Mr Watson and Mr White have been awarded options as shown below in accordance with the rules of the 1994 Executive Share Option Plan.

Mr Lennon has been awarded options as shown below in accordance with the 1994 US Stock Option Plan.

	Year	Options as at 1 April 2005	**Options as at 31 March 2006**	**Exercise price £**	**Dates exercisable**
C J O'Connor	–	–	**–**	**–**	–
C M White	2002	30,000	**30,000**	**0.49**	21.06.05 to 20.06.12
S D Lennon	1997	10,000	**10,000**	**1.955**	07.08.00 to 06.08.07
	1999	80,000	**80,000**	**1.71**	10.08.02 to 09.08.09
	2000	80,000	**80,000**	**1.39**	07.06.03 to 06.06.10
	2001	8,000	**8,000**	**0.945**	16.07.04 to 15.07.11
	2002	17,500	**17,500**	**0.49**	21.06.05 to 20.06.12
		195,500	**195,500**		
A L Watson	1999	150,000	**150,000**	**1.71**	10.08.02 to 09.08.09
	2000	150,000	**150,000**	**1.39**	07.06.03 to 06.06.10
	2001	15,000	**15,000**	**0.945**	16.07.04 to 15.07.11
	2002	30,000	**30,000**	**0.49**	21.06.05 to 20.06.12
		345,000	**345,000**		

All of the options held by Mr Watson remained capable of exercise during the period of 12 months following his departure from the Company on 1 June 2005 (and whether or not the performance condition referred to above has been satisfied). They were not exercised within that period and therefore lapsed on 1 June 2006.

No share options were granted under the 1994 Executive Share Option Plan to any Executive Director or to Mr Lennon under the 1994 US Stock Option Plan during the financial year 2005/06. Other than as mentioned above, no options were either exercised or lapsed during the year.

The 1994 Executive Share Option Plan and 1994 US Stock Option Plan expired on 21 July 2004 and, as replacements, a Long Term Incentive Plan and a new Executive Share Option Plan were introduced, each of which is described below. All new executive incentive schemes are subject to shareholder approval.

Long Term Incentive Plan*

The Company has a long term incentive plan that operates internationally known as the Scapa Group plc 2004 Performance Share Plan, which was approved by shareholders at the Annual General Meeting on 22 July 2004 with the first awards made shortly thereafter. The plan has been designed to provide progressive levels of reward in the form of Company shares for the achievement of challenging levels of performance.

Executive Directors and selected senior executives are invited by the Committee to participate in the Plan. Awards under the Plan take the form of either an annual allocation of ordinary shares or a grant of Nil Cost Options over shares with a market value at the time of grant equivalent to a maximum of 100% of basic salary at that time with vesting taking place at the expiry of the three-year performance period of the Plan, subject to attainment of the performance targets.

Awards in the form of an allocation of ordinary shares lapse at the end of the three-year performance period to the extent that the performance conditions have not been met. Awards in the form of a Nil Cost Option remain exercisable until their tenth anniversary of the date of grant, subject to achievement of the performance conditions, after which they lapse.

The Committee is responsible for setting the performance criteria and targets and takes independent advice in doing so. The Committee considers total shareholder return (TSR) to be one of the key performance measures over which the financial value of the Company is assessed over the medium to long-term. The use of TSR measured against the constituents of the FTSE All Share Index is considered a suitably challenging criterion in the current market. The Committee believes that this method of calculating performance provides an independent and verifiable measure of the Company's performance.

A minimum level of performance must be achieved for any award to vest. The performance target for the awards made in 2004 requires the Company's TSR performance when measured against the FTSE All Share Index to be at least at the median level for any portion of the award to vest, at which level 25% of the award will vest. 75% of the award will vest for top quartile performance, and 100% of the award will vest for top decile performance. Awards vest on a straight line basis for performance between these levels.

No awards were made under the Long Term Incentive Plan during the financial year 2005/06.

Awards made under the 2004 Long Term Incentive Plan are as follows:

	Shares under option as at 1 April 2005	**Shares under option as at 31 March 2006**	**Exercise price £**	**Dates exercisable**
C M White	250,000	**250,000**	**Nil**	16.08.07 to 15.08.14
S D Lennon	150,000	**150,000**	**Nil**	16.08.07 to 15.08.14
A L Watson	250,000§	**–**	**Nil**	16.08.07 to 15.08.14

§The Award in favour of Mr Watson lapsed upon his departure from the Company on 1 June 2005.

Executive Share Options* (2004 Plan)

The Company operates an additional Executive Share Option plan for senior executives in the UK and overseas, namely the Scapa Group plc 2004 Executive Share Option Plan which was approved by shareholders at the Company's Annual General Meeting on 22 July 2004. However, no options have been granted to date under the Plan.

The Executive Share Option Plan provides a potential reward in shares for improvement in Company performance reflected in the share price. The option provides the opportunity to purchase shares at a fixed exercise price dependent on achievement of predetermined performance targets.

The Plan has two parts, an Unapproved Discretionary Share Option Plan (the 'Unapproved Part') and an addendum containing an Inland Revenue approved Discretionary Share Option Plan (the 'Approved Part'). The Approved Part of the Plan can be used to grant options to UK residents with an aggregate value not exceeding £30,000. All other grants of options over and above the £30,000 threshold and those made to overseas employees are granted under the Unapproved Part of the Plan. Options only become exercisable, in normal circumstances, three years after the date of grant and then may only be exercised if certain performance criteria are met. Options remain exercisable until the tenth anniversary of their date of grant, after which they lapse.

The ability to exercise the option is dependent upon the achievement of predetermined performance targets based on growth in earnings per share (EPS) over changes in the retail price index (RPI). The current target set by the Committee is compound annual growth of RPI plus 4% per annum at which 50% of the options will vest. At RPI plus 5% per annum 75% of the options will vest and at RPI plus 6% per annum 100% of the options will vest.

Under this Plan, the Committee has the discretion to grant awards up to a maximum of 150% of salary per annum. Options may be granted under the Executive Share Option Plan in the same year as awards under the Performance Share Plan subject to a review of the overall expected value.

Sharesave*

The Scapa Group 2001 Sharesave Scheme and Scapa Group 1991 Sharesave Scheme are Inland Revenue approved Save-As-You-Earn share option schemes. Options have usually been offered annually, subject to approval by the Group Board, following the publication of the Company's preliminary results to eligible employees (including Executive Directors) in the United Kingdom who have worked a minimum six month qualifying period and agree to save a fixed amount for five years under an approved savings contract. Inland Revenue rules limit the maximum amount that can be saved by a participant to £250 per month. In normal circumstances options are exercisable for six months following the completion of a savings contract using the proceeds from that contract. The exercise price is based on the market value of the shares as of the date of grant, less a discount of 20%.

Directors' Remuneration Report

Details of the sharesave options subscribed for by each Executive Director under the schemes are set out below:

	Year	Options as at 1 April 2005	**Options as at 31 March 2006**	**Exercise price £**	**Total number of shares under option/dates exercisable**
C M White	2002	35,212	**35,212**	**0.47**	01.09.07 to 29.02.08
A L Watson	2000	6,490	**–**	**1.04**	01.09.05 to 28.02.06
	2001	4,440	**–**	**0.76**	01.11.06 to 30.04.07
	2002	14,085	**–**	**0.47**	01.09.07 to 29.02.08
		25,015	**–**		

The options granted in favour of Mr Watson lapsed during the year.

No sharesave options were granted to any Directors during the financial year 2005/06. No sharesave options were either exercised or lapsed during the year.

Non-Executive Directors' remuneration*

The remuneration policy for Non-Executive Directors is determined by the Board. Remuneration comprises an annual fee for acting as a Non-Executive Director of the Company and an additional fee for acting as the Chairman of a Board Committee. Non-Executive Directors are not eligible to participate in the Company pension schemes nor any incentive plans.

Non-Executive Directors' remuneration for the year to 31 March 2006 is set out in the following table:

	Total Fees £	
	2006	2005
K G G Hopkins§	**115,002**	80,004
M C Baughan	**32,083**	27,500
S Kalyandjian	**29,583**	27,500
R J Perry (appointed 1 June 2005)	**25,000**	–
	201,668	135,004

The Non-Executive Directors may not participate in annual bonus arrangements, healthcare arrangements, company share option or pension schemes. The Company repays the reasonable expenses they incur in carrying out their duties as Directors.

§ The underlying remuneration of Dr Hopkins as Non-Executive Chairman remained at the rate of £80,000 p.a. The additional payment of £35,002 relates to the period between the retirement of Mr Watson as Chief Executive on 1 June 2005 and the appointment of Mr O'Connor on 10 October 2005, during which period Dr Hopkins acted as Executive Chairman of the Company.

Directors' interests*

As of 31 March 2006 the Directors and their immediate families had the following beneficial interests in the Company's shares and options to subscribe for shares:

	31 March 2006				31 March 2005			
	Shares	**Executive share options**	**Performance Share Plan**	**SAYE share options**	Shares	Executive share options	Performance Share Plan	SAYE share options
C J O'Connor	**50,000**	**–**	**–**	**–**	–	–	–	–
C M White	**15,000**	**30,000**	**250,000**	**35,212**	15,000	30,000	250,000	35,212
S D Lennon	**900**	**195,500**	**150,000**	**–**	900	195,500	150,000	–
K G G Hopkins	**100,000**	**–**	**–**	**–**	50,000	–	–	–
M C Baughan	**40,000**	**–**	**–**	**–**	40,000	–	–	–
S Kalyandjian	**119,815**	**–**	**–**	**–**	119,815	–	–	–
	325,715	**225,500**	**400,000**	**35,212**	225,715	225,500	400,000	35,212

From the end of the financial year until 7 June 2006 there have been no changes in the above interests.

The market price of the Company's shares at the end of the financial year was 21.00p and the range of market prices during the year was between 31.25p and 18.50p.

Individual Service Contracts

Mr O'Connor has a service agreement with the Company on a rolling one-year term basis, effective from 10 October 2005, which is terminable by twelve months' notice in writing by either party.

Mr White has a service agreement with the Company on a rolling one-year term basis, effective from 3 December 2001, which is terminable on twelve months' notice in writing by either party.

Mr Lennon has a service agreement with the Company on a rolling one-year term basis, effective from 1 February 2005, which is terminable on twelve months' notice in writing by either party.

In addition to the normal notice provisions, the Company may also terminate service agreements of Mr O'Connor, Mr White and Mr Lennon at any time with immediate effect on payment in lieu of notice equivalent to twelve months' gross basic salary.

There are no express provisions for compensation payable upon early termination of an Executive Director's contract as at the date of termination other than as detailed above.

It is Company policy that all executive appointments to the Board will have contract notice periods of no longer than twelve months.

Non-Executive Directors, other than the Chairman, are appointed for an initial three-year term which may be renewed for two further three-year terms thereafter. The Non-Executive Directors do not have contracts of service and are not entitled to compensation in the event of early termination, for whatever reason. The appointment of the Non-Executive Directors may be terminated by either party by twelve months' notice in writing.

Details of the appointments of the Non-Executive Directors are as follows:

Pursuant to a letter dated 29 November 2001 issued by the Company, Dr Hopkins was appointed a Non-Executive Director of the Company with effect from 7 January 2002. Pursuant to an agreement dated 31 March 2002 Dr Hopkins became Chairman of the Company. His appointment is initially for a fixed term of three years but this was extended to a rolling one-year term basis with effect from 31 March 2005. The appointment is terminable on twelve months' notice in writing by either party.

Pursuant to a letter dated 20 July 1994 issued by the Company, Mr Baughan was appointed a Non-Executive Director of the Company with effect from 22 July 1994. His appointment was initially for a fixed term of three years. This has been renewed for two further terms of three years and two further one-year terms. In July 2005 the appointment of Mr Baughan was extended for a further calendar year until the conclusion of the Company's Annual General Meeting 2006. The unexpired term of the appointment is therefore four months as of 31 March 2006.

Pursuant to a letter dated 9 April 2001 issued by the Company, Mr Kalyandjian was appointed a Non-Executive Director of the Company with effect from 1 April 2001. His appointment was initially for a fixed term of three years. This was renewed for a further term of three years with effect from 1 April 2004. The unexpired term of the appointment is therefore one year as of 31 March 2006. Mr Kalyandjian has, however, advised the Board of his intention to retire at the forthcoming Annual General Meeting.

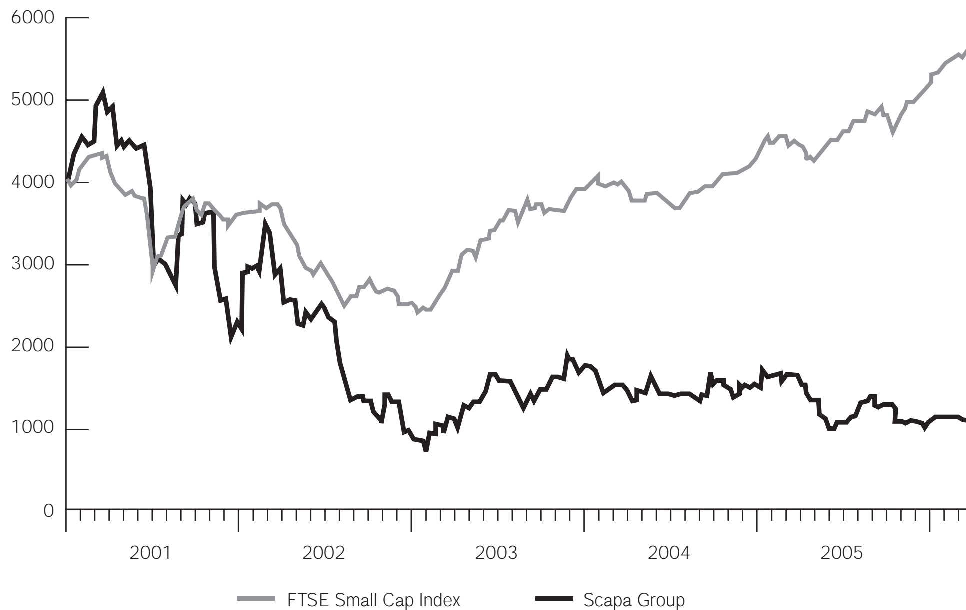
Pursuant to a letter dated 5 May 2005 Mr Perry was appointed a Non-Executive Director of the Company with effect from 2 June 2005. His appointment is for an initial term of three years. The unexpired term of the appointment is therefore two years and two months as of 31 March 2006.

Directors' Remuneration Report

Performance Graph

The graph below shows the Company's TSR (Total Shareholder Return) compared to the FTSE Small Cap Index over the last five years. TSR is defined as share price growth plus reinvested dividends. In the opinion of the Directors, the FTSE Small Cap Index is the most appropriate index against which the TSR of Scapa Group plc should be measured because it is an index of similar sized companies to Scapa Group plc.

Relative Returns Analysis of Scapa versus Sector (rebased to 100)



Source Thomson Datastream

S Kalyandjian
Chairman, Remuneration Committee
7 June 2006

Corporate Governance

Throughout the year to 31 March 2006, the Company complied with the provisions of the revised Combined Code on corporate governance issued by the Financial Reporting Council in July 2003 ('the 2003 Code') except for a short period in relation to provision C.3.1 of the 2003 Code regarding membership of the Audit Committee, the explanation for which is on page 25. The Company has a policy of seeking to comply with established best practice in the field of corporate governance.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to create value for shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. The Board, which meets at least seven times a year, has a schedule of matters reserved for its approval. The full Board met seven times during 2005/06 and each member attended all of the meetings during the term of his appointment, except Mr Lennon who was unable to attend one meeting.

The specific responsibilities reserved to the Board include setting Group strategy and approving an annual budget and medium-term projections; reviewing operational and financial performance; approving major acquisitions, divestments and capital expenditure; reviewing the Group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place and reviewing the environmental, health and safety performance of the Group. The Board delegates matters not reserved to the Board concerning the management of the business to the Senior Executive Teams.

The roles of the Chairman and Chief Executive

Mr Watson left the Company on 1 June 2005. Until the appointment of Mr O'Connor as Chief Executive on 10 October 2005, Dr Hopkins became Executive Chairman and Mr Baughan, the Senior Independent Director, became Deputy Chairman. Since the appointment of Mr O'Connor, Dr Hopkins has reverted to his Non-Executive role.

The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director

Mr Baughan is currently the Senior Independent Director. The Board proposes to appoint Mr Perry as Senior Independent Director following the retirement of Mr Baughan at the Annual General Meeting. The Senior Independent Director is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

Directors and Directors' independence

As at 31 March 2006 the Board comprised the Chairman, three independent Non-Executive Directors and three Executive Directors. As Scapa was below the FTSE 350 for the year immediately prior to the reporting year it is classed as a small company under the 2003 Code. Therefore the Company complied with provision A.3.2 of the 2003 Code as there were two independent Non-Executive Directors throughout the year under review and three following the appointment of Mr Perry. The names of the Directors together with their biographical details and any other directorships are set out on page 8. All the Directors served throughout the period under review except Mr Perry who was appointed on 1 June 2005 and Mr O'Connor who was appointed on 10 October 2005. The independent Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

The Non-Executive Directors meet formally, at least once a year, without the Executive Directors and also meet informally on other occasions.

The Directors are given access to independent professional advice at the Group's expense, when the Directors deem it is necessary in order for them to carry out their responsibilities.

The Group maintains, for its Directors and officers, liability insurance for any claims or series of claims against them in that capacity.

The Board considers all its Non-Executive Directors to be independent in character and judgement. No Non-Executive Director has been an employee of the Group within the last five years; has or has had within the last three years, a material business relationship with the Group; receives remuneration other than a Director's fee; has close family ties with any of the Group's advisers, Directors or senior employees; holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies; or represents a significant shareholder.

Although Mr Baughan has served on the Board for more than nine years, the Board considers him to have retained the independence of character and judgement, notwithstanding that period of service.

Corporate Governance

Professional development

On appointment each Director takes part in an induction programme when they receive comprehensive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and Committees, and the powers delegated to those Committees, the Group's corporate governance practices and procedures, including the powers reserved to the Group's most senior executives, and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives. Throughout their period in office the Directors are updated on the Group's business, the competitive environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole. The Directors are also required to update their skills and knowledge by attending appropriate external courses and are required to inform the Company in writing of courses attended during the year.

Performance evaluation

The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its Committees and individual Directors. The Directors are made aware that their performance will be subject to an evaluation on appointment.

Each year every Board member is obliged to complete a performance evaluation questionnaire. This questionnaire provides a framework for the evaluation process, and provides the Chairman with a means of making year-to-year comparisons. The questionnaire covers the Board; the Remuneration Committee; the Nominations Committee and the Audit Committee. The questionnaire includes specific references to the objectives of the Board and Committees and the effectiveness of the individual Directors. The Chairman collates the results from the completed questionnaire and the results are discussed at Board/Committee level and objectives are agreed for the following year.

Led by the Senior Independent Director the Non-Executive Directors meet annually, without the presence of the Chairman, to conduct a performance evaluation of the Chairman. A similar method to that described above is employed.

Re-election

Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, Non-Executive Directors are appointed for an initial period of three years. Before the third and sixth anniversary of the Non-Executive Directors' appointment, the Director discusses with the Board whether it is appropriate for a further three-year term to be served. The reappointment of Directors who have served for more than nine years (if any) is subject to annual review. The Directors who are subject to re-election at the 2006 Annual General Meeting are listed in the Board of Directors paragraph in the Report of the Directors.

The Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Information

Board reports and papers are circulated to the Directors at least a week in advance of the relevant Board or Committee meeting. These papers are supplemented by information specifically requested by the Directors from time to time. Minutes of Board and Committee meetings are circulated to all Board members.

The Non-Executive Directors receive monthly management accounts and regular management reports and information which enables them to scrutinise the Group's and management's performance against agreed objectives.

Relations with shareholders

In fulfilment of the Chairman's obligations under the 2003 Code, the Chairman gives feedback to the Board on issues raised with him by major shareholders. This is supplemented by twice-yearly feedback to the Board on meetings between management and investors and external brokers' reports on the Group are circulated to all Directors. The Annual General Meeting is normally attended by all Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended.

The Group maintains a corporate web site (www.scapa.com) which contains information on company activities, financial information and published financial results. The Group has discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the annual and interim results with the Group's largest institutional shareholders on an individual basis. In addition, the Group responds to individual ad hoc requests for discussions from institutional shareholders. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate.

All shareholders, including private investors, have an opportunity to put questions to members of the Board on matters relating to the Group's operation and performance at the Annual General Meeting. The Notice calling the Annual General Meeting is despatched at least 20 working days before the meeting. Separate resolutions are proposed at the Annual General Meeting on each substantially separate issue. The Chairman discloses to the meeting the number of proxy votes received for and against each resolution following the show of hands on that resolution.

Going concern

In presenting the annual and interim financial statements, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As described in note 1, they continue to adopt the going concern basis in preparing the financial statements.

Internal control system

In accordance with the Turnbull Guidance on internal control, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks to the achievement of the Group's strategic objectives. The process has been reviewed regularly throughout the period by the Audit Committee up to the date of this report, and accords with the requirements of the 2003 Code relating to internal control as set out in the September 1999 'Internal Control Guidance for Directors on the Combined Code' produced by the Institute of Chartered Accountants in England and Wales. The effectiveness of this process has been reviewed regularly throughout the period by the Audit Committee, which reports its findings for consideration by the Board.

The Board has carried out a review of the effectiveness of the system of internal controls, and that review covered all material controls (financial, operational, risk management and compliance).

The processes used by the Audit Committee to review the effectiveness of the system of internal control include:

- Review of potential risk areas and action plans to address these issues, as provided by senior management;
- The review of internal and external audit plans;
- The review of any significant issues arising from internal and external audits;
- Annual compliance statements from each business region.

The Senior Executive Teams meet regularly to review and identify potential areas of business risk, and action plans have been established to address these areas. Progress against these plans is monitored on a regular basis by the senior management team, the Audit Committee and the Board.

The Board has overall responsibility for maintaining and reviewing the effectiveness of the Group's system of internal controls. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed. They are designed to manage rather than eliminate the risk to the achievement of business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Control environment and risk assessment

The processes used to identify and manage the key risks to the success of the Group are an integral part of the internal control environment. Such processes include strategic planning, the appointment of senior managers and a clear organisational structure in which levels of authority and accountability are well defined, and regularly reviewed. There is a recognition of personal responsibility and accountability by members of the management teams of the individual operating units.

Wherever practical, duties are segregated and a high degree of management control is exercised through review by executives of historical and forecast financial information. In addition, the Group has reporting systems that identify major financial and other business risks within the Group.

Financial and business performance is regularly monitored, and operating units are responsible for meeting the defined reporting timetables and compliance with the Group accounting and Treasury manuals which set out accounting policies, controls and definitions. Financial reporting follows generally accepted accounting practice in all areas.

Central review and approval procedures are in place in respect of major areas of risk such as acquisitions and disposals, major contracts, capital expenditure, litigation, treasury management, taxation and environmental issues. Compliance with legislation is closely monitored and reviewed regularly to ensure any new legislation is taken into account, including compliance with environmental legislation. High standards and defined targets are set for safety, health and environmental performance.

Information systems

Comprehensive information systems are maintained at Group and operating unit levels, and are subject to scrutiny by the Board. These include:

- Detailed budgeting and forecasting procedures, with an annual budget approval process;
- Monthly consideration of actual results compared with budgets and forecasts;
- Regular review of the Group's capital expenditure, with detailed appraisal and review procedures, defined authority levels and post-investment performance reviews;

Corporate Governance

Regular executive and Board meetings, combined with ongoing regional based operational reviews are held with a view to ensuring variances and discrepancies are identified and investigated on a timely basis. The Company also reports to shareholders half-yearly.

Internal audit

The internal audit function was outsourced three years ago to Deloitte and Touche LLP. This provides a strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures.

The internal audit function reviews internal controls in all key activities of the Group, typically over a three-year cycle. It also acts as a service to the businesses by assisting with the continuous improvement of controls and procedures. Actions are agreed in response to its recommendations and these are reviewed by the Board and are followed up regularly to ensure that satisfactory control is maintained.

An audit programme is approved by the Audit Committee each year, and is targeted to focus on the most significant areas of risk exposure to ensure that key control objectives remain in place.

Whistle-blowing policy

The Group has a whistle-blowing policy, copies of which are made available to employees, to enable and encourage employees, regardless of seniority, to bring matters which cause them concern to the attention of the Board.

Nominations Committee

The Nominations Committee comprises Dr Hopkins, Mr Baughan and Mr Kalyandjian. Dr Hopkins acts as Chairman of the Committee. The Nominations Committee met twice during the year. All members of the Committee attended each meeting. When necessary, non-Committee members were also invited to attend. The Nominations Committee's terms of reference can be found on the Group's web site (www.scapa.com).

The Nominations Committee considers the mix of skills and experiences that the Board requires and seeks the appointment of Directors to meet its assessment of what is required to ensure that the Board is effective in discharging its responsibilities. During the year the Committee reviewed the time that it believed a Non-Executive Director would normally be required to commit to his duties including serving on the Board's Committees, and considered whether it had sufficient Non-Executive Directors to enable each of them to carry out their role effectively. A search process was initiated via external recruitment agents, as a result of which Mr Perry was appointed as a Non-Executive Director on 1 June 2005.

During the year, the Nominations Committee initiated the search for a successor to Mr Watson. The Committee began the process by identifying the core competencies required of the candidate to carry out the role. Several potentially suitable candidates were identified, including Mr O'Connor who was interviewed initially by the Chairman and then by the Non-Executive Directors before a final selection was made and, as a result, he joined the Board on 10 October 2005.

Remuneration Committee

During the year the Remuneration Committee comprised Mr Kalyandjian, Mr Baughan and Mr Perry. Mr Kalyandjian acts as Chairman of the Committee. The Remuneration Committee met four times during the year. When necessary non-Committee members were also invited to attend. All members of the Remuneration Committee attended all of the meetings.

The Committee's principal responsibilities are:

- setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- setting, reviewing and approving individual remuneration packages for Executive Directors including terms and conditions of employment and any changes to the packages;
- reviewing the salary structure and terms, conditions and benefits of employment of other specified senior executives;
- approving the rules, and launch, of any Group share, share option or cash based incentive scheme and the grant, award, allocation or issue of shares, share options or payments under such scheme.

In addition the Committee regularly reviews the Group's remuneration policy in relation to its competitors and industry norms, compensation commitment and contract periods.

From time to time the Board employs Remuneration consultants. The Remuneration Committee's terms of reference are available on the Group's web site (www.scapa.com).

Audit Committee

During the year the Audit Committee comprised Dr Hopkins, Mr Perry, Mr Baughan and Mr Kalyandjian. Mr Perry acted as Chairman of the Committee from the date of his appointment as a Director on 1 June 2005, whereupon Dr Hopkins ceased to be a member. The members of the Committee are the independent Non-Executive Directors. The Company therefore complies with provision C.3.1 of the 2003 Code as at 31 March 2006 but did not do so for the period from 1 April 2005 to 1 June 2005.

The Audit Committee met four times during the year and all members attended each of the meetings, except Mr Kalyandjian who was unable to attend the meeting held on 25 May 2005.

Mr Perry is Group Finance Director of Fenner plc, a listed company, and can therefore be considered to possess recent and relevant financial experience.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. It also reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The Committee also reviews the effectiveness of the internal audit function. The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review.

The Committee meets with Executive Directors and management, as well as privately with both the external and internal auditors. The Committee's terms of reference are displayed on the Group's web site (www.scapa.com).

In 2006 the Audit Committee discharged its responsibilities by: reviewing the Group's draft annual financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon; reviewing the appropriateness of the Group's accounting policies; reviewing regularly the potential impact in the Group's financial statements of certain matters such as impairments of fixed asset values and proposed International Accounting Standards; reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors; reviewing the external auditor's plan for the audit of the Group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmation of auditor independence and the proposed audit fee and approving the terms of engagement for the audit; reviewing reports on the Group's systems of internal control and its effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control; reviewing performance of significant recent acquisitions; and reviewing the internal audit function, provided by Deloitte, terms of reference, its work programme and reports on its work during the year.

The Audit Committee also monitors the Group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

Auditors' independence and objectivity

The Audit Committee monitors regularly the non-audit services being provided to the Group by its external auditors to check these services do not impair their independence or objectivity, and that the Group maintains a sufficient choice of appropriately qualified audit firms. Prior approval of the Audit Committee is required for any services provided by the external auditors where the fee is likely to be in excess of £10,000. In any case activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved.

The Audit Committee reviews all services being provided by the external auditors to review the independence and objectivity of the external auditors, taking into consideration relevant professional and regulatory requirements, so that these are not impaired by the provision of permissible non-audit services.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 3 to the financial statements.

By order of the Board
M R Stirzaker
Company Secretary
7 June 2006

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the financial statements comply with IFRS.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the web site. However legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
M R Stirzaker
Company Secretary
7 June 2006

Independent Auditors' Report to the Members of Scapa Group plc

We have audited the Group financial statements of Scapa Group plc for the year ended 31 March 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Scapa Group plc for the year ended 31 March 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group financial statements. The information given in the Report of the Directors includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Report of the Directors. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement, the Business Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
7 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

All on continuing operations	note	**Year ended 31 March 2006 £m**	Year ended 31 March 2005 (restated) £m
Turnover	1	**191.5**	188.2
Operating loss	1, 3	**(11.6)**	(1.2)
Trading profit*		**5.5**	3.3
Reorganisation costs and exceptional provision increases	4	**(3.4)**	(0.9)
Property, plant and equipment and goodwill impairment	4, 11	**(13.7)**	(3.6)
Operating loss		**(11.6)**	(1.2)
Interest payable	7	**(1.3)**	(1.3)
Interest receivable	7	**0.3**	0.6
		(1.0)	(0.7)
Discount on provisions	7	**(0.5)**	(0.5)
IAS 19 finance costs	7	**(1.4)**	(1.2)
Net finance costs		**(2.9)**	(2.4)
Loss on ordinary activities before taxation		**(14.5)**	(3.6)
Taxation	8	**(0.8)**	5.8
(Loss)/profit on ordinary activities after taxation		**(15.3)**	2.2
Profit attributable to minority interests		**–**	0.1
(Loss)/profit attributable to equity shareholders	23	**(15.3)**	2.1
Weighted average number of shares	22	**144.8**	144.8
(Loss)/earnings per share (p)	9	**(10.6)**	1.5

Consolidated Statement of Recognised Income and Expense

For the year ended 31 March 2006

All on continuing operations	note	**Year ended 31 March 2006 £m**	Year ended 31 March 2005 (restated) £m
Retained (loss)/profit for the period		**(15.3)**	2.1
Exchange differences on translating foreign operations	23	**2.3**	1.3
Actuarial losses	21	**(19.3)**	(7.3)
Total recognised expense for the period		**(32.3)**	(3.9)
IFRS transition adjustment (IAS 32 and IAS 39)	23	**0.2**	–
Total recognised expense		**(32.1)**	(3.9)

The notes on pages 37 to 63 form part of these accounts.

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

Consolidated Balance Sheet

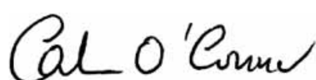
As at 31 March 2006

	note	**31 March 2006 £m**	31 March 2005 (restated) £m
Assets			
Non-current assets			
Goodwill	11, 12	**11.2**	21.0
Property, plant and equipment	11, 13	**46.9**	52.3
Deferred tax asset	8	**9.4**	8.4
Other non-current assets	14	**–**	0.1
		67.5	81.8
Current assets			
Inventory	15	**21.6**	19.3
Trade and other receivables	14	**46.5**	43.6
Tax assets		**–**	0.4
Financial assets – derivative financial instruments	23	**0.2**	–
Current asset investments	16	**5.7**	10.7
Cash and cash equivalents	17	**3.4**	8.1
		77.4	82.1
Liabilities			
Current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities	19	**(3.0)**	(3.1)
– Derivative financial instruments	23	**(0.1)**	–
Trade and other payables	18	**(33.6)**	(32.7)
Tax liabilities		**(0.6)**	–
Provisions	20	**(2.7)**	(2.1)
		(40.0)	(37.9)
Net current assets		**37.4**	44.2
Non-current liabilities			
Financial liabilities:			
- Borrowings and other financial liabilities	19	**(13.6)**	(20.2)
Other non-current liabilities	18	**(2.1)**	(2.0)
Deferred tax liabilities	8	**(5.0)**	(4.9)
Other tax liabilities		**(2.7)**	(3.0)
Retirement benefit obligations	21	**(63.4)**	(45.6)
Provisions	20	**(9.9)**	(10.1)
		(96.7)	(85.8)
Net assets		**8.2**	40.2
Shareholders' equity			
Ordinary shares	22	**7.2**	7.2
Retained earnings	23	**(2.6)**	31.7
Translation reserve	23	**3.6**	1.3
Total shareholders' equity		**8.2**	40.2

The notes on pages 37 to 63 form part of these accounts.

These accounts were approved by the Directors on 7 June 2006.

C J O'Connor
Chief Executive Officer



C M White
Group Finance Director

Consolidated Cash Flow Statement

For the year ended 31 March 2006

All on continuing operations	note	**Year ended 31 March 2006 £m**	Year ended 31 March 2005 (restated) £m
Cash flows from operating activities			
Net cash flow from operations	24	**2.1**	1.5
Cash generated from operations before reorganisation and movements in exceptional provisions	24	**6.3**	3.7
Cash outflows from reorganisation and movements in exceptional provisions	24	**(4.2)**	(2.2)
Net cash flow from operations		**2.1**	1.5
Net interest paid		**(1.1)**	(0.4)
Income tax paid		**(1.0)**	–
Net cash generated from operating activities		**–**	1.1
Cash flows from investing activities			
Acquisition of subsidiary		**–**	(0.3)
Purchase of property, plant and equipment		**(2.7)**	(4.6)
Proceeds from sale of property, plant and equipment		**0.1**	0.1
Proceeds from receipt of government grant		**–**	0.5
Proceeds from release of $10m Waycross deposit	16	**5.7**	–
Net (payments)/receipts in respect of forward contracts	16	**(0.3)**	1.8
Net cash generated/(used) in investing activities		**2.8**	(2.5)
Cash flows from financing activities			
Repayment of borrowings		**(8.0)**	(1.9)
Dividends paid to Company shareholders		**–**	(0.5)
Net cash used in financing activities		**(8.0)**	(2.4)
Net decrease in cash and cash equivalents		**(5.2)**	(3.8)
Cash and cash equivalents at beginning of the year	17	**5.7**	9.6
Exchange gains/(losses) on cash and cash equivalents		**0.4**	(0.1)
Cash and cash equivalents at end of the year	17	**0.9**	5.7

Group Accounting Policies

Scapa Group plc (the Company) and its subsidiaries (together the Group) manufacture and sell technical adhesive tapes and specialist cable compounds. The Group has manufacturing plants around the world and sells mainly in countries within Europe, North America and Asia.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 997 Manchester Road, Ashton-under-Lyne, Manchester, OL7 0ED. The Company has its listing on the London stock exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 7 June 2006.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These are the Group's first full year consolidated financial statements prepared under International Financial Reporting Standards (IFRS) and an explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 26. These policies have been consistently applied to all years presented with the exception of IAS 32 and IAS 39 as noted below.

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 adopted 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. A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies owing to the adoption of new accounting standards in the year.

IFRS transitional arrangements

Scapa Group plc reported under UK GAAP in its previously published financial statements for the year ended 31 March 2005. A reconciliation of profits as reported under UK GAAP for the year ended 31 March 2005, and net assets as reported under UK GAAP at 1 April 2004 and 31 March 2005 to the revised profit and net assets reported under IFRS at these dates is provided in note 26.

When preparing the Group's IFRS Balance Sheet at 1 April 2004 the date of transition and restating results for the year ended 31 March 2005, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

- Business combinations – the requirements of IFRS 3 have been applied prospectively from 1 April 2004.
- Financial instruments – the Group has taken advantage of the exemption not to restate comparative information for the requirements of IAS 32 and IAS 39.
- Cumulative translation differences – the Group has taken the exemption which allows all cumulative translation differences for foreign operations to be set to zero at the date of transition.
- Share-based payments – the Group has taken advantage of the exemption which allows IFRS 2 to be applied when accounting for share-based payment transactions since 7 November 2002 only.

Early adoption of standards

In 2006 the Group has early adopted the amended version of IAS 19 'Employee Benefits' issued by the IASB in December 2004 and endorsed by the EU in December 2005. This enables the Group to recognise actuarial gains and losses relating to its defined benefit pension scheme liabilities immediately in full in the Statement of Recognised Income and Expense. The Group has not early adopted any other standards.

New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Group has assessed the impact of these new standards and interpretations and it is anticipated that they will have no impact on the Group's financial statements.

Consolidation

The consolidated financial statements include those of the parent company and its subsidiary undertakings up to 31 March in each year prepared under IFRS. The results of subsidiary undertakings acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal respectively.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly

Group Accounting Policies

attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Segmental reporting

A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group has only one business segment.

Costs are allocated to segments based on the nature of the expense, the activities conducted by the segment and the relative autonomy of the segment.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying net investment hedges.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the cumulative translation reserve within shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the Income Statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

- Freehold buildings: 40 years
- Leasehold buildings: life of the lease
- Plant, machinery and fixtures: 5-20 years
- IT systems and software: 3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment, or when an indication of impairment is identified, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each site or product group.

Intangible assets

(a) Research and development expenditure
Research expenditure is expensed as incurred. Costs associated with developing or enhancing existing product lines are recognised as an expense as incurred.

Development costs are assessed as to whether they meet the IAS 36 criteria for capitalisation. No costs have been incurred by the Group which meet those criteria.

(b) Acquired intangible assets
Separately acquired intangible assets are held at historic cost less impairment. Cost comprises the purchase price and any directly attributable costs incurred in preparing the asset for its intended use. Intangible assets acquired in a business combination are held at fair value on the date of acquisition. Acquired intangible assets are amortised over their estimated useful lives.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Value in use is determined based on the estimated future cash inflows and outflows derived from the continued use of the asset and from its ultimate disposal. These cash flows are discounted using the Group's pre-tax weighted average cost of capital, adjusted to reflect any risks specific to the asset for which the estimated future cash flows have not been adjusted.

Forecasts of future cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These estimates are adjusted by a risk premium where appropriate and are reviewed and approved by the Audit Committee.

Financial instruments

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss and loans, receivables and payables. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets and liabilities measured at fair value
Financial assets and liabilities are measured at fair value. Instruments in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the Balance Sheet date. Hedge accounting is only applied for net investment hedges, with changes in fair value being taken directly to the translation reserve where hedge accounting is achieved. Changes in fair values of cash flow hedges are taken through the Income Statement, including currency swaps relating to bank borrowings.

(b) Loans, receivables and payables
Loans, receivables and payables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor or creditor with no intention of trading the receivable or payable. They are included in current assets or liabilities, except for maturities greater than 12 months after the Balance Sheet date. These are classified as non-current assets or liabilities. Loans and receivables are included in trade and other receivables or trade and other payables in the Balance Sheet. Loans, receivables and payables are measured at invoice or historic cost less any impairment.

Group Accounting Policies

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) allocated on a systematic basis. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for obsolete, slow moving and defective inventory on a line by line basis, or by grouping similar or related items.

Trade receivables

Trade receivables are recognised initially at invoice value, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Income Statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

Share capital

Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or in respect of interim dividends when approved by Directors.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

Deferred taxation

The charge for taxation, comprising both UK and non-UK taxation, is based on the taxable profits for the year and also takes into account deferred taxation. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated biannually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' equity.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is calculated using the Binomial model and is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable.

It recognises the impact of the revision of original estimates, if any, in the Income Statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Holiday pay
The Group recognises an asset or liability relating to holiday pay obligations at the Balance Sheet date. Movements in the period are taken to the Income Statement.

(d) Bonus plans
The Group recognises a liability and an expense for bonuses based on a pre-determined formula for key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions
Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where the effect is material, provisions are discounted in line with IAS 37 using a pre-tax discount rate. The discount rate does not reflect risks for which the estimated future outflows have already been adjusted.

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

(a) Sales of goods
Sales of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, and when the Group entity has no continuing managerial involvement nor effective control over the goods. In most instances this occurs when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Where items are sold with a right of return, accumulated experience is used to estimate and provide for such returns at the time of sale.

(b) Interest income
Interest income is recognised on an accruals basis.

(c) Dividend income
Dividend income is recognised when the right to receive payment is established.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

Group Accounting Policies

Leases in which substantially all of the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are recognised as assets and liabilities in the Balance Sheet at the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount rate in calculating the present value of the cash outflows. Where the Group does not obtain ownership of the asset at the end of the lease period, the asset is depreciated over the shorter of its useful life and the lease term. Where ownership does pass to the Group at the end of the lease period, the policy for depreciating the asset is consistent with that for depreciable assets that are owned.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is calculated based on the amount of borrowing outstanding, and is charged against profits over the primary lease period.

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relate to tangible fixed assets and are treated as deferred income and are credited to the Income Statement over the expected useful lives of the assets concerned.

Financial risk management

Financial risk factors
The Group's activities expose it to a variety of financial risks: currency risk, interest-rate risk, credit risk, and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group finance department (in close co-operation with the operating units) under policies approved by the Board of Directors.

– Currency risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Canadian Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage its foreign exchange risk the Group uses forward contracts, foreign currency borrowings and foreign currency bank balances. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

– Interest-rate risk
The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. The Group mitigates its cash flow interest-rate risk through the use of an interest rate cap to limit the potential downside arising from movements in interest rates.

– Credit risk
The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

– Liquidity risk
The Group maintains a mixture of committed long-term and short-term facilities designed to ensure that the Group has sufficient cash funds available for operations and planned investment.

Critical accounting estimates and judgements
The Group's accounting policies have been set by management and approved by the Audit Committee. The application of these accounting policies to specific scenarios requires estimates and assumptions to be made concerning the future. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Under IFRS estimates or judgements are considered critical where they involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities from period to period. This may be because the estimate or judgement involves matters which are highly uncertain, or because different estimation methods or assumptions could reasonably have been used.

Critical judgements have been made in the following areas when preparing the Group's accounts:

1. Impairment of goodwill and property, plant and equipment – see note 11.
2. Calculation of provisions – see note 20.
3. Retirement benefit liabilities – see note 21.
4. Contingent liabilities – see note 28.

Notes on the Accounts

1. 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 2006 are 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)	–	(2.8)	5.5
Exceptional costs:						
Property, plant and equipment and goodwill impairment	(10.3)	(2.7)	(0.7)	–	–	(13.7)
Reorganisation costs and provision increases	(2.2)	(0.1)	–	–	(1.1)	(3.4)
	(12.5)	(2.8)	(0.7)	–	(1.1)	(17.1)
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						(0.8)
Loss on ordinary activities after taxation						**(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 is as follows:

	Europe £m	N America £m	Asia £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 are 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)

Notes on the Accounts

1. Segmental reporting continued

The segment results for the year ended 31 March 2005 are as follows:

	Europe £m	N America £m	Asia £m	Eliminations £m	Corporate £m	Group £m
External sales	115.3	64.1	8.8	–	–	188.2
Inter-segment sales	6.6	2.3	1.4	(10.3)	–	–
Total revenue	121.9	66.4	10.2	(10.3)	–	188.2
Segment result (before exceptional costs)	(0.4)	7.1	0.5	–	(3.9)	3.3
Exceptional costs:						
Property, plant and equipment impairment	(1.9)	(1.7)	–	–	–	(3.6)
Reorganisation costs	(0.5)	(0.4)	–	–	–	(0.9)
	(2.4)	(2.1)	–	–	–	(4.5)
Operating (loss)/profit	(2.8)	5.0	0.5	–	(3.9)	(1.2)
Net finance costs						(2.4)
Loss on ordinary activities before taxation						**(3.6)**
Taxation						5.8
Profit on ordinary activities after taxation						**2.2**
Profit attributable to minority interests						0.1
Profit attributable to equity shareholders						2.1

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	Asia £m	Group £m
External sales	104.2	61.9	22.1	188.2

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	(5.2)	(1.5)	(0.1)	(0.1)	(6.9)
Impairment of property, plant and equipment	(1.9)	(1.7)	–	–	(3.6)

2. Segment assets and liabilities

The segment assets and liabilities at 31 March 2006 and capital expenditure for the year then ended are 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 segment assets and liabilities at 31 March 2005 and capital expenditure for the year then ended are as follows:

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Segment assets	91.8	51.9	4.9	15.3	163.9
Segment liabilities	(47.5)	(14.7)	(0.7)	(60.8)	(123.7)
Capital expenditure	(1.7)	(2.1)	(0.1)	–	(3.9)

The Group is organised into geographical areas and does not report to management on any other basis. There are no secondary business segments which would require reporting under IAS 14.

3. Operating loss

The operating loss for the year comprises:

	2006 Pre Exceptional £m	**2006 Exceptional £m**	**2006 Total £m**	2005 Pre Exceptional £m	2005 Exceptional £m	2005 Total £m
Turnover	**191.5**	**–**	**191.5**	188.2	–	188.2
Change in stocks of finished goods and WIP	**3.0**	**–**	**3.0**	0.9	–	0.9
	194.5	**–**	**194.5**	189.1	–	189.1
Raw materials and consumables	**(90.2)**	**–**	**(90.2)**	(85.3)	–	(85.3)
Other external charges	**(21.8)**	**–**	**(21.8)**	(21.0)	–	(21.0)
	(112.0)	**–**	**(112.0)**	(106.3)	–	(106.3)
Directors and employees costs	**(52.0)**	**(2.1)**	**(54.1)**	(52.0)	(0.4)	(52.4)
Depreciation of tangible fixed assets						
– owned assets	**(6.3)**	**–**	**(6.3)**	(6.8)	–	(6.8)
– leased assets	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Impairment of goodwill	**–**	**(10.9)**	**(10.9)**	–	–	–
Impairment of property, plant and equipment	**–**	**(2.8)**	**(2.8)**	–	(3.6)	(3.6)
Operating lease rentals						
– land and buildings	**(2.1)**	**–**	**(2.1)**	(2.1)	–	(2.1)
– plant, machinery and other	**(1.4)**	**–**	**(1.4)**	(1.6)	–	(1.6)
Auditors remuneration (UK £0.1m (2005: £0.1m))	**(0.3)**	**–**	**(0.3)**	(0.4)	–	(0.4)
Other fees paid to auditors (UK £0.1m (2005: £0.1m))	**(0.3)**	**–**	**(0.3)**	(0.3)	–	(0.3)
Loss on sale of fixed assets	**(0.2)**	**–**	**(0.2)**	(0.2)	–	(0.2)
Repairs and maintenance costs	**(2.8)**	**–**	**(2.8)**	(2.7)	–	(2.7)
Research and development costs	**(3.4)**	**–**	**(3.4)**	(3.3)	–	(3.3)
Amortisation of government grants received	**0.2**	**–**	**0.2**	0.2	–	0.2
Other reorganisation costs and exceptional provision increases	**–**	**(1.3)**	**(1.3)**	–	(0.5)	(0.5)
Move in fair value of financial instruments	**(0.1)**	**–**	**(0.1)**	–	–	–
Other operating charges	**(8.2)**	**–**	**(8.2)**	(10.2)	–	(10.2)
	(189.0)	**(17.1)**	**(206.1)**	(185.8)	(4.5)	(190.3)
Total operating profit/(loss)	**5.5**	**(17.1)**	**(11.6)**	3.3	(4.5)	(1.2)

Other fees paid to auditors include **£0.1m** (2005: £0.2m) tax and consultancy fees and **£0.2m** (2005: £0.1m) tax compliance fees.

The parent company audit fee was **£0.1m** (2005: £0.1m).

Notes on the Accounts

4. Exceptional items

In the year ended 31 March 2006 exceptional costs totalled £17.1m.

Impairments of goodwill and property, plant and equipment totalling £13.7m were charged in the year, split between: Europe (£10.3m), North America (£2.7m), and Asia (£0.7m). The impairments are discussed in more detail in note 11.

Other exceptional costs totalled £3.4m of which £2.8m were reorganisation costs and a further £0.6m related to an increase in dilapidations at certain UK leased properties and an increase in an existing onerous lease provision.

The reorganisation costs included £2.4m relating to redundancy and relocation costs in Europe and North America. In addition, an onerous lease provision of £0.4m was created relating to the head office property in the UK which was vacated prior to the expiry of the lease agreement.

Provision increases are discussed in more detail in note 20.

In the year ended 31 March 2005 the following exceptional costs were incurred:

Impairments of property, plant and equipment balances of £3.6m were made in the year ended 31 March 2005 and are discussed in note 11.

In addition reorganisation costs of £0.9m were incurred in the period. £0.4m of this related to the transfer of the North America cable wrapping tapes operation from its site in the US to Scapa's Canadian plant. A further £0.5m related to additional management changes in the UK (£0.4m) which were required as part of the European restructuring and cost reduction programme, and an increase to the European onerous lease provision (£0.1m) which was reassessed in the period.

5. Employee benefit expense

	2006 £m	2005 £m
Wages and salaries	**41.2**	41.4
Social security costs	**6.2**	5.9
Share options granted to directors and employees	**0.1**	0.1
Pension costs – defined contribution plans (note 21)	**2.6**	2.7
Pension costs – defined benefit plans (note 21)	**1.9**	1.9
	52.0	52.0
Reorganisation and termination costs (note 4)	**2.1**	0.4
	54.1	52.4

Average employee numbers

	2006	2005
Europe	**1,060**	1,083
North America	**502**	520
Asia	**77**	74
	1,639	1,677

6. Related parties

Key management compensation

	2006 £m	2005 £m
Salaries and other short-term employee benefits	**0.5**	0.4
Termination benefits	**0.2**	–
Post employment benefits	**0.1**	0.1
	0.8	0.5

7. Net finance costs

	2006 £m	2005 £m
Interest payable on bank loans and overdrafts	**(1.3)**	(1.3)
Expected return on pension scheme assets less interest on scheme liabilities	**(1.4)**	(1.2)
Discount on provisions	**(0.5)**	(0.5)
	(3.2)	(3.0)
Interest receivable and similar income	**0.3**	0.6
Net financial expenses	**(2.9)**	(2.4)

8. Taxation

Income tax expense	**2006 Operating £m**	**2006 Exceptional £m**	**2006 Total £m**	2005 Total £m
Recognised in the Income Statement:				
UK corporation tax:				
– current year	**–**	**–**	**–**	–
– prior year	**0.3**	**–**	**0.3**	4.1
Non-UK corporation tax:				
– current year	**(1.4)**	**–**	**(1.4)**	(1.0)
– prior year	**0.1**	**–**	**0.1**	0.4
	(1.0)	**–**	**(1.0)**	3.5
UK deferred tax:				
– current year	**–**	**–**	**–**	0.4
– prior year	**–**	**–**	**–**	(0.9)
Non-UK deferred tax:				
– current year	**(1.4)**	**0.8**	**(0.6)**	3.1
– prior year	**(0.3)**	**1.1**	**0.8**	(0.3)
	(1.7)	**1.9**	**0.2**	2.3
Tax charge for the year	**(2.7)**	**1.9**	**(0.8)**	5.8

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the UK corporation tax rate as follows:

	2006 £m	2005 £m
Loss before tax	**(14.5)**	(3.6)
Taxation credit at 30%	**4.3**	1.1
Adjustments for prior years	**1.2**	3.5
Tax losses for which no deferred income tax asset was recognised	**(3.8)**	(0.9)
Income not taxable and deductions for items not taken to the Income Statement	**3.3**	–
Items not deductible for tax purposes	**(5.7)**	2.1
Other	**(0.1)**	–
Tax charge for the year	**(0.8)**	5.8

Notes on the Accounts

8. Taxation continued

Deferred income tax

The deferred tax balances included in these accounts are attributable to the following:

	2006 £m	2005 £m
Deferred tax assets:		
– loss arising on transfer of business	**2.4**	3.2
– legal fees and other provisions	**6.4**	5.1
– retirement benefit liabilities	**1.0**	1.0
Total deferred tax assets	**9.8**	9.3
Deferred tax liabilities:		
– accelerated tax depreciation	**(1.4)**	(1.8)
– provision for potential future tax liability	**(4.0)**	(4.0)
Total deferred tax liabilities	**(5.4)**	(5.8)
Total deferred tax balance	**4.4**	3.5

As required by IAS 12, deferred tax assets and liabilities have been offset where they arise in the same jurisdictions and are therefore presented on the Balance Sheet as follows:

	2006 £m	2005 £m
Deferred tax assets as above:	**9.8**	9.3
– accelerated tax depreciation liabilities offset against same country assets	**(0.3)**	(0.9)
– other timing difference assets moved to offset against liabilities	**(0.1)**	–
Deferred tax asset	**9.4**	8.4
Deferred tax liabilities as above:	**(5.4)**	(5.8)
– other timing difference assets offset against same country liabilities	**0.1**	–
– accelerated tax depreciation liabilities moved to offset against assets	**0.3**	0.9
Deferred tax liabilities	**(5.0)**	(4.9)

All movements on deferred tax balances have been recognised in the Income Statement.

Deferred tax assets amounting to £28.0m have not been recognised due to the uncertainty over the utilisation of the underlying tax losses in each jurisdiction. The assets comprise unrecognised tax losses (£7.6m), accelerated tax depreciation (£2.6m) and retirement benefit liabilities (£17.8m).

In the year ended 31 March 2005 deferred tax assets of £18.1m were not recognised. These comprised unrecognised tax losses (£6m), accelerated tax depreciation (£0.8m) and retirement benefit liabilities (£11.3m).

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control, except where distributions of such profits are planned. Cumulative unremitted earnings of overseas subsidiaries totalled approximately £30.0m at 31 March 2006. The tax which would arise on remittance of these amounts would be substantially lower than statutory rates after taking account of foreign tax credits and UK tax losses.

9. Earnings per share

Basic
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
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 has no dilutive potential ordinary shares.

	2006	2005
(Loss)/profit attributable to equity holders of the Company (£m)	**(15.3)**	2.1
Weighted average number of ordinary shares in issue (m)	**144.8**	144.8
Basic and diluted (loss)/earnings per share (p)	**(10.6)**	1.5

Trading (before exceptional items)	**2006** **£m**	2005 £m
(Loss)/profit attributable to equity holders of the Company	**(15.3)**	2.1
Adjusted for:		
Exceptional items	**17.1**	4.5
Exceptional element of tax charge	**(1.9)**	(6.8)
Adjusted loss attributable to equity holders of the Company	**(0.1)**	(0.2)
Weighted average number of ordinary shares in issue (m)	**144.8**	144.8
Trading and diluted trading loss per share (p)	**(0.1)**	(0.1)

10. Dividends per share

The dividend paid in 2005 was £0.5m (0.4p per share). No dividend is to be proposed at the Annual General Meeting in respect of the year ended 31 March 2006.

11. Impairment of assets

Year ended 31 March 2006
The carrying values of the Group's goodwill and property, plant and equipment balances have been reassessed at 31 March 2006 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.

Impairments in the year totalled £13.7m and were made up as follows:

An impairment at the Dunstable site of £6.7m goodwill, £0.4m IT systems and £0.2m leasehold additions has been recorded in the period. The European medical goodwill balance has been combined into a cash generating unit (CGU) along with property, plant and equipment at the Dunstable site in the UK and this CGU has been assessed against the value in use, using discounted future cash flows from the business in the European region. Due to a reduction in demand for medical products manufactured at this site, the carrying value of these assets was found to be in excess of the discounted forecast future cash flows over a ten-year period and accordingly a write down of assets in the CGU has been required.

An impairment at the UK North site of £1.6m goodwill, £0.8m IT systems and £0.6m leasehold additions has been recorded in the period. The European CCL acquisition goodwill balance has been combined into a CGU along with the property, plant and equipment at the UK North site. This CGU has been assessed against value in use, using discounted future cash flows for the UK North site over a thirteen-year period. Due to the underperformance of certain products manufactured at the UK North site, the carrying value of these assets was also found to be in excess of the discounted forecast future cash flows, and accordingly a write down of assets in the CGU has been required.

An impairment of £2.6m goodwill and £0.1m plant and machinery has been recorded in the period relating to the LUSA acquisition. This North American LUSA acquisition goodwill balance has been combined into a CGU along with the cable property, plant and equipment in the region. This CGU has been assessed against value in use, using discounted future cash flows from the North American cable business. Due to the slowdown in demand for water-swellable cable wrapping tapes, the carrying value of these assets was found to be in excess of the discounted forecast future cash flows over a six-year period, and accordingly a write down of assets in the CGU has been required.

Notes on the Accounts

11. Impairment of assets continued

An impairment of the Korean assets of £0.7m has been recorded in the period. Property, plant and equipment at the Korean site was also reviewed against value in use, using the discounted future cash flows of the operation. As a result of slower than expected growth in the trading conditions experienced by the local operation, the carrying value of these assets was found to be in excess of the discounted forecast cash flows.

Year ended 31 March 2005
The above CGUs were reviewed against value in use in the year ended 31 March 2005 using discounted future cash flow projections. In all cases the carrying values of the cash generating units were found to be lower than the forecast future cash flows and no impairments were required.

Impairments of other specific items of property, plant and equipment balances were made in the year ended 31 March 2005 totalling £3.6m. Of that £1.7m was a write down of a specialist coater in North America due to the loss of a key contract after the overseas relocation of the customer's North American operation. A further £1.9m impairment was made to European assets due to the weakened market conditions in the area of Italy and South Eastern Europe. The impairment was calculated with a discount rate of 9.5% using the value in use method for the CGU, which included plant and machinery and furniture, fittings and equipment at the Italian facility.

12. Goodwill

	£m
At 1 April 2004	
Cost	38.4
Accumulated amortisation and impairment	(17.2)
Net book value	21.2
Year ended 31 March 2005	
Opening cost	38.4
Exchange differences	(0.9)
Additions	0.1
Closing cost	37.6
Opening accumulated amortisation and impairment	(17.2)
Exchange differences	0.6
Closing accumulated amortisation and impairment	(16.6)
At 1 April 2005	
Cost	37.6
Accumulated amortisation and impairment	(16.6)
Net book value	21.0
Year ended 31 March 2006	
Opening cost	37.6
Exchange differences	2.4
Closing cost	40.0
Opening accumulated amortisation and impairment	(16.6)
Exchange differences	(1.3)
Impairment for the year	(10.9)
Closing accumulated amortisation and impairment	(28.8)
At 1 April 2006	
Cost	40.0
Accumulated amortisation and impairment	(28.8)
Net book value	11.2

12. Goodwill continued

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the country of operation and acquisition.

A summary of the goodwill allocation is presented below:

Year ended 31 March 2006	Europe £m	N America £m	Asia £m	Total £m
Asia Joint Venture buy out	–	–	0.1	0.1
Acutek acquisition	–	11.1	–	11.1
	–	11.1	0.1	11.2

Year ended 31 March 2005	Europe £m	N America £m	Asia £m	Total £m
CCL acquisition	1.6	–	–	1.6
LUSA acquisition	–	2.5	–	2.5
Asia Joint Venture buy out	–	–	0.1	0.1
Acutek acquisition	–	10.1	–	10.1
Medifix acquisition	6.7	–	–	6.7
	8.3	12.6	0.1	21.0

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 12 month period. Cash flows beyond this period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business segment in which the CGU operates.

Key assumptions for value-in-use calculations

	Operating margin movement	Growth rate	Discount rate
Europe			
CCL acquisition	0.13%	3.0%	9.5%
Medifix acquisition	0.03%	3.0%	9.5%
North America			
LUSA acquisition	(5.60%)	–	9.5%
Acutek acquisition	0.50%	2.0%	9.5%

These assumptions have been used for the analysis of each CGU. Management forecast operating margins based on past performance and product mix projections. The weighted average growth rates used are based on management projections for the respective products and markets. The discount rates used are post-tax and are based on the Group's weighted average cost of capital.

A summary of the impairment charges made in the period is given in note 11 above. The only remaining goodwill balances at 31 March 2006 relate to the North American Medical operation and the buy out of the Asia joint venture. Management does not believe that there are any assumptions used in the discounted future cash flow models for these operations where a reasonable change could cause the carrying value of the assets in the CGU to exceed the forecast future cash flows.

Notes on the Accounts

13. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold buildings £m	Plant and machinery £m	Furniture, fittings and equipment £m	IT systems £m	Assets under construction £m	Total £m
At 1 April 2004							
Cost	16.2	7.8	74.8	4.0	15.3	5.4	123.5
Accumulated depreciation	(3.5)	(1.7)	(48.8)	(2.6)	(8.4)	–	(65.0)
Net book value	12.7	6.1	26.0	1.4	6.9	5.4	58.5
Year ended 31 March 2005							
Opening cost	16.2	7.8	74.8	4.0	15.3	5.4	123.5
Exchange differences	0.5	(0.1)	0.9	–	–	–	1.3
Additions	–	0.1	1.4	–	0.1	2.3	3.9
Disposals	–	(0.2)	(3.4)	(0.1)	(0.4)	–	(4.1)
Transfers	0.9	0.2	5.6	0.1	0.1	(6.9)	–
Closing cost	17.6	7.8	79.3	4.0	15.1	0.8	124.6
Opening accumulated depreciation	(3.5)	(1.7)	(48.8)	(2.6)	(8.4)	–	(65.0)
Exchange differences	(0.1)	0.1	(0. 6)	–	–	–	(0.6)
Depreciation	(0.4)	(0.3)	(4.3)	(0.2)	(1.7)	–	(6.9)
Disposals	–	–	3.3	0.1	0.4	–	3.8
Impairment	–	(0.3)	(3.3)	–	–	–	(3.6)
Closing accumulated depreciation	(4.0)	(2.2)	(53.7)	(2.7)	(9.7)	–	(72.3)
At 1 April 2005							
Cost	17.6	7.8	79.3	4.0	15.1	0.8	124.6
Accumulated depreciation	(4.0)	(2.2)	(53.7)	(2.7)	(9.7)	–	(72.3)
Net book value	13.6	5.6	25.6	1.3	5.4	0.8	52.3
Year ended 31 March 2006							
Opening cost	17.6	7.8	79.3	4.0	15.1	0.8	124.6
Exchange differences	0.8	–	1.9	0.1	0.1	–	2.9
Additions	–	–	0.6	0.1	0.1	1.8	2.6
Disposals	–	–	(4.5)	–	–	–	(4.5)
Transfers	0.1	–	0.6	–	0.1	(0.8)	–
Closing cost	18.5	7.8	77.9	4.2	15.4	1.8	125.6
Opening accumulated depreciation	(4.0)	(2.2)	(53.7)	(2.7)	(9.7)	–	(72.3)
Exchange differences	(0.2)	–	(1.0)	(0.1)	(0.1)	–	(1.4)
Depreciation	(0.5)	(0.2)	(3.8)	(0.3)	(1.6)	–	(6.4)
Disposals	–	–	4.2	–	–	–	4.2
Impairment	(0.2)	(0.8)	(0.6)	–	(1.2)	–	(2.8)
Closing accumulated depreciation	(4.9)	(3.2)	(54.9)	(3.1)	(12.6)	–	(78.7)
At 1 April 2006							
Cost	18.5	7.8	77.9	4.2	15.4	1.8	125.6
Accumulated depreciation	(4.9)	(3.2)	(54.9)	(3.1)	(12.6)	–	(78.7)
Net book value	13.6	4.6	23.0	1.1	2.8	1.8	46.9

The Group has not revalued any item of property, plant and equipment.

13. Property, plant and equipment continued

Assets held under finance leases, capitalised and included in property, plant and equipment are as follows:

	2006 £m	2005 £m
Cost	**0.1**	0.2
Accumulated depreciation	**(0.1)**	(0.1)
Net book amount	**–**	0.1

In accordance with IFRS 1 'First time adoption of International Financial Reporting Standards' and IAS 17 'Leases' the Group has reviewed the classification of all leases at the opening Balance Sheet date of 1 April 2004. In reviewing the leases of land and buildings in accordance with the guidance the land and buildings elements of the lease need to be considered separately. No reclassifications of leases have been made in these accounts.

Bank borrowings are secured on property, plant and equipment with a net book value of £25.1m.

14. Trade and other receivables

	2006 £m	2005 £m
Amounts due within one year:		
Trade receivables	**43.2**	40.7
Less: provisions for impairment	**(0.6)**	(0.6)
Trade receivables – net	**42.6**	40.1
Other debtors	**2.4**	1.8
Prepayments and accrued income	**1.5**	1.7
	46.5	43.6
Amounts due after more than one year:		
Other debtors	**–**	0.1
	–	0.1

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are internationally dispersed.

The Group has recognised no gain for movement in the provision for impairment against trade receivables in the year. A prior year gain of £0.4m was included in 'other operating expenses' in the Income Statement.

15. Inventories

	2006 £m	2005 £m
Raw materials	**6.9**	7.6
Work in progress	**4.0**	3.5
Finished goods	**10.7**	8.2
	21.6	19.3

The cost of inventories recognised as an expense and included in the Income Statement amounted to **£87.2m** (2005: £84.4m).

The Group has recognised a charge of **£0.1m** (2005: £nil) for impairment of inventory in the year. This was included in 'changes in stocks of finished goods and WIP' in the Income Statement.

Bank borrowings are secured on inventory with a net book value of £14.3m.

Notes on the Accounts

16. Current asset investments

Under the terms of the agreement for the sale of the Papermaking Products and Services business dated 1 July 1999, Scapa Dryer Fabrics Inc., which is party to the asbestos litigation described in note 28, made certain undertakings to the purchaser, J M Voith AG, regarding the disposition of the proceeds of the sale of its business of US$40.0m. This required that this sum be retained as cash on deposit from the date of the agreement, effectively as security against the cost of any successful asbestos claims made against the purchaser as successor to the business.

During the year ended 31 March 2003, as a result of the settlement of a number of outstanding issues between Scapa and J M Voith AG, related to the sale of the Papermaking Products and Services business, Scapa was able to release US$20.0m (£13.1m) from this deposit, leaving US$20.0m (£13.4m) in the fund at 31 March 2003. On 1 September 2005, it was agreed with J M Voith AG that a further US$10m (£5.7m) be released and this was used to reduce debt. There is a balance of US$10m remaining in the account and this remains a restricted asset. At 31 March 2006 the value of this fund translated into Sterling was £5.7m. Cash of £0.3m was paid during the year in respect of exchange movements on the roll-forward of the forward contract associated with the fund (2005: £1.8m receipt). As the Group hedge accounts for this forward contract the movement was taken directly to reserves.

17. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**3.4**	8.0
Short-term bank deposits	**–**	0.1
	3.4	8.1

Cash and bank overdrafts include the following for the purposes of the Cash Flow Statement:

	2006 £m	2005 £m
Cash and cash equivalents	**3.4**	8.1
Bank overdrafts – note 19	**(2.5)**	(2.4)
	0.9	5.7

18. Trade and other payables

	2006 £m	2005 £m
Amounts due within one year:		
Trade payables	**23.1**	22.2
Other taxes and social security	**3.8**	3.7
Other creditors	**1.4**	1.7
Deferred consideration	**–**	0.1
Accruals and deferred income	**5.3**	5.0
	33.6	32.7
Amounts due after more than one year:		
Other creditors	**0.5**	0.2
Accruals and deferred income	**1.6**	1.8
	2.1	2.0

19. Borrowings

	2006 £m	2005 £m
Amounts due within one year:		
Bank overdrafts	**2.5**	2.4
Other loans	**0.5**	0.7
Total amounts within one year	**3.0**	3.1
Amounts due after more than one year:		
Bank borrowings	**13.5**	20.2
Other loans	**0.1**	–
Total amounts after more than one year	**13.6**	20.2
Total borrowings	**16.6**	23.3

Bank borrowings comprise £13.9m of drawings under the committed facility less £0.4m of facility fees, which are being amortised over the term of the facility. Bank borrowings are secured on the principal land and buildings, plant and equipment (note 13) and inventory (note 15) and receivables of the Group. The Group also has in place a cross guarantee between the parent company and its UK subsidiaries in respect of bank loans and other financial obligations which amounted at 31 March 2006 to £2.5m. The available borrowing facility for committed long-term debt reduced by £5.0m in March 2006 to **£25.0m** (2005: £30.0m) and this facility was extended to a new expiry date of 30 September 2007.

The exposure of the Group to interest rate changes and the contractual repricing dates are as follows:

	6 months or less £m	6–12 months £m	1–5 years £m	Total £m
31 March 2006				
Total borrowings	3.0	–	13.6	16.6
Effect of interest rate swaps	–	–	(0.1)	(0.1)
	3.0	–	13.5	16.5
31 March 2005				
Total borrowings	3.1	–	20.2	23.3
Effect of interest rate swaps	–	–	(0.1)	(0.1)
	3.1	–	20.1	23.2

The maturity of non-current financial liabilities is as follows:

	1–2 years £m	Total £m
31 March 2006		
Bank borrowings	13.5	13.5
Other loans	0.1	0.1
	13.6	13.6
31 March 2005		
Bank borrowings	20.2	20.2
	20.2	20.2

The effective interest rates at the Balance Sheet date were as follows:

	Sterling	US and Canadian Dollars	Other currencies
31 March 2006			
Bank overdrafts	5.5%	–	–
Other loans	5.5%	–	–
Bank borrowings	6.4%	6.3%	2.7%
31 March 2005			
Bank overdrafts	5.8%	–	–
Other loans	5.5%	–	–
Bank borrowings	6.7%	4.2%	2.5%

Notes on the Accounts

19. Borrowings continued

Interest rate exposure is managed through a mix of capped and floating rate debt, with a small portion of fixed rate debt.

An interest rate cap was taken out in August 2004 covering a principal of US$10m for a three-year term. The cap rate is fixed at 3.5%. Had this cap been cancelled at 31 March 2006 there would have been compensation receivable of US$0.2m. This instrument effectively caps interest payable on US$10m of debt at a rate based on three-month US Dollar LIBOR of 3.5% during that three-year period. If market rates exceed the capped rate at any time during that period, then the issuer becomes liable to reimburse Scapa with the difference. As Dollar interest rates have moved above 3.5% during the last financial year, Scapa has received a small amount of compensation in respect of this instrument, which has a positive fair value as indicated. Scapa has no further financial obligation under the terms of this instrument under any circumstances. The interest rate cap is deemed to have a floating interest rate.

Set out below is a year-end comparison of fair and book values of non-current borrowings:

	Book value £m	**Fair value £m**
31 March 2006		
Bank borrowings	13.5	13.5
Other loans	0.1	0.1
	13.6	13.6
31 March 2005		
Bank borrowings	20.2	20.2

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006 £m	2005 £m
Sterling	**4.1**	7.6
US and Canadian Dollars	**11.5**	9.3
Other currencies	**1.0**	6.4
	16.6	23.3

The Group has the following undrawn borrowing facilities:

	2006 £m	2005 £m
Floating rate		
– expiring within one year	**12.5**	12.6
– expiring after more than one year	**11.1**	9.3
	23.6	21.9

20. Provisions

	Asbestos litigation costs £m	**Leasehold commitments £m**	**Other £m**	**Total £m**
At 1 April 2005	9.0	1.4	1.8	12.2
Exchange differences	0.7	–	–	0.7
Provided in the year	–	1.0	–	1.0
Unwinding of discount	0.5	–	–	0.5
Utilised in the year	(1.4)	(0.2)	(0.2)	(1.8)
At 31 March 2006	8.8	2.2	1.6	12.6
Analysis of provisions:				
Current	1.3	0.4	1.0	2.7
Non-current	7.5	1.8	0.6	9.9
	8.8	2.2	1.6	12.6

20. Provisions continued

Asbestos litigation costs

Following the Group's divestiture of the Papermaking Products and Services business in the year ended 31 March 2000, provision was made for ongoing liabilities, which related to these businesses, but which were retained by Scapa. These relate primarily to the defence of personal injury claims as outlined in note 28. In conjunction with US Legal Counsel, the Board has reviewed the assumptions underlying the provision for future litigation costs and no further change in the provision has been made. This provision is being discounted in accordance with IAS 37 using the Group's weighted average cost of capital. Whilst the Board believes that the assumptions made are reasonable, and the provision remains its best estimate of the total cost likely to be incurred, there remains, as is usual in these circumstances, substantial uncertainty.

As described in note 28 Scapa is vigorously defending all of the outstanding claims against it. No Scapa Group company, or insurance carrier, has admitted liability to date or made any payment to any plaintiff under the policies, either as the result of any judgement or by way of settlement. Accordingly the Board believes that it is unlikely that significant uninsured liabilities will arise from this litigation. Consequently no provision has been made for payments to plaintiffs.

Leasehold commitments

The **£2.2m** (2005: £1.4m) reorganisation provision relates to onerous lease commitments (£1.3m) and dilapidations for leasehold property (£0.9m). £0.4m provision was created in the current year relating to the vacation of the UK head office leased property and an additional £0.1m was provided in the year for a leasehold warehousing operation to reflect revised tenancy assumptions.

An increase of £0.5m has been made to the provision for dilapidations at leased UK sites in accordance with the lease terms. Whilst the timing of the economic benefits relating to the other non-current provisions cannot be ascertained with any degree of certainty, the Directors consider they will take place within 20 years.

Other provisions

Other provisions relate to environmental contamination of a number of sites in both Europe (£0.9m) and North America (£0.7m). The Group expects the spend against the European environmental provision to be incurred over the next two years.

21. Retirement benefit liabilities

The Company operates several defined benefit and defined contribution schemes for employees in the UK and overseas.

Defined contribution schemes

The Group operates a number of defined contribution schemes. Employer's contributions are charged to the profit and loss account as incurred. The total pension cost for the Group in respect of these schemes for the year ended 31 March 2006 was **£2.6m** (2005: £2.7m).

Defined benefit schemes

The total amounts recognised in the Group financial statements for defined benefit schemes are summarised on page 56.

a) UK schemes

The UK defined benefit schemes are funded by contributions from members as defined in the scheme rules and by the employing company at a rate assessed by the scheme actuaries as sufficient to meet the balance of costs determined following the triennial fund reviews. The assets of the schemes are held separately from Company assets under Trust. The charge to operating profit in the year for UK schemes was **£1.3m** (2005: £1.3m).

The funding position of the three principal UK schemes, the Scapa Group Retirement Benefits Scheme, the Senior Retirement Benefits Scheme and Scapa Tapes UK Ltd. Pension Plan, was reassessed in April 2003 by independent qualified actuaries using the projected unit method of valuation.

Following the reassessment of the funding position after the latest triennial valuation of the schemes, the agreed additional cash contributions in excess of ongoing contributions for existing employees are:

– £0.4m per annum from December 2003 to November 2013 for the Scapa Group Retirement Benefits Scheme;
– £2.3m per annum from April 2004 to November 2013 for the Scapa Group Senior Retirement Benefits Scheme;
– £0.6m per annum from March 2004 to February 2009 for the Scapa Tapes UK Ltd. Pension Plan.

Including ongoing contributions at the agreed rate, total annual cash contributions into the defined benefit schemes were £4.3m based on current circumstances.

The IAS 19 Retirement Benefits valuations have been updated by the scheme actuaries, in order to assess the liabilities of the schemes at 31 March 2006. Scheme assets are stated at their market value at 31 March 2006.

Notes on the Accounts

21. Retirement benefit liabilities continued

The financial assumptions used to calculate scheme liabilities under IAS 19 for the UK defined benefit schemes are as follows:

	2006	2005
Discount rate	**5.0%**	5.4%
Salary increases per annum	**3.8%**	3.5%
Price inflation per annum	**3.0%**	2.8%
Increases to pensions in payment	**3.0%**	2.8%–3.0%
Increases to deferred pensions	**3.0%**	2.8%

The IAS 19 calculations have been performed using the mortality assumptions contained in the medium cohort PA92 tables.

The amounts recognised in the Balance Sheet are determined as follows:

	2006 Expected rate of return	**2006 Value £m**	2005 Expected rate of return	2005 Value £m
Equities	**7.8%**	**43.7**	8.0%	37.7
Bonds	**4.4%–5.0%**	**46.0**	4.8%–5.0%	37.0
Other	**4.5%**	**0.1**	4.5%	0.1
Total market value of assets		**89.8**		74.8
Present value of scheme liabilities		**(149.0)**		(116.5)
Net deficit in the scheme		**(59.2)**		(41.7)

The amounts recognised in the Income Statement are as follows:

	2006 £m	2005 £m
Current service cost (included within staff costs)	**(1.3)**	(1.3)
Expected return on scheme assets	**4.9**	4.6
Interest on scheme liabilities	**(6.2)**	(5.7)
Total included within finance costs	**(1.3)**	(1.1)
Total expenses charged through Income Statement	**(2.6)**	(2.4)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2006 £m	2005 £m
Actual return less expected return on scheme assets	**10.7**	2.0
Experience gains and (losses) arising on scheme liabilities	**(1.6)**	(3.0)
Changes in assumptions underlying the present value of scheme liabilities	**(28.3)**	(6.2)
Total amounts recognised in the Statement of Recognised Income and Expense	**(19.2)**	(7.2)

Analysis of movements in scheme assets:

	2006 £m	2005 £m
Beginning of the year	**74.8**	68.4
Expected return on scheme assets	**4.9**	4.6
Actual return less expected return on scheme assets	**10.7**	2.0
Contributions paid	**4.3**	4.3
Benefits paid	**(5.1)**	(4.7)
Member contributions	**0.2**	0.2
End of the year	**89.8**	74.8

21. Retirement benefit liabilities continued

Analysis of movement in scheme liabilities:

	2006 £m	2005 £m
Beginning of the year	**(116.5)**	(104.8)
Current service cost (included within staff costs)	**(1.3)**	(1.3)
Interest on scheme liabilities	**(6.2)**	(5.7)
Experience gains and (losses) arising on scheme liabilities	**(1.6)**	(3.0)
Changes in assumptions underlying the present value of scheme liabilities	**(28.3)**	(6.2)
Benefits paid	**5.1**	4.7
Member contributions	**(0.2)**	(0.2)
End of the year	**(149.0)**	(116.5)

Analysis of the movement in the Balance Sheet liability:

	2006 £m	2005 £m
Beginning of the year	**(41.7)**	(36.4)
Total expenses charged through Income Statement	**(2.6)**	(2.4)
Total amounts recognised in the Statement of Recognised Income and Expense	**(19.2)**	(7.2)
Contributions paid	**4.3**	4.3
End of the year	**(59.2)**	(41.7)

b) Overseas schemes

The Group operates a number of pension schemes in different countries, both of a defined benefit and defined contribution nature. The total defined benefit pension charge to operating profit for the Group in respect of overseas pension schemes for the year ended 31 March 2006 was **£0.6m** (2005: £0.6m).

Defined benefit schemes are set up under separate trust funds and liabilities are generally assessed annually in accordance with the advice of independent actuaries. Details of the Group's material overseas defined benefit schemes are as follows:

North America

The Group operates a funded defined benefit scheme and two unfunded pension plans in North America. The valuations used for the IAS 19 Retirement Benefits disclosure have been based on the most recent actuarial valuations at 31 March 2006. Scheme assets are stated at their market value at 31 March 2006. The financial assumptions used to calculate the present value of the scheme liabilities at 31 March 2006 under the requirements of IAS 19 are shown below.

	2006	2005
Discount rate	**5.25%–6.0%**	5.75%
Salary increases per annum	**4.25%**	4.25%
Price inflation per annum	**3.00%**	3.00%

The amounts recognised in the Balance Sheet are determined as follows:

	2006 Expected rate of return	**2006 Value £m**	2005 Expected rate of return	2005 Value £m
Equities	**9.3%**	**3.0**	9.8%	1.9
Bonds	**5.2%**	**2.1**	4.7%	1.4
Other	**3.8%**	**0.2**	3.8%	0.1
Total market value of assets		**5.3**		3.4
Present value of scheme liabilities		**(6.8)**		(4.8)
Net deficit in the scheme		**(1.5)**		(1.4)

Notes on the Accounts

21. Retirement benefit liabilities continued

The amounts recognised in the Income Statement are as follows:

	2006 £m	2005 £m
Current service cost (included within staff costs)	**(0.5)**	(0.5)
Expected return on scheme assets	**0.3**	0.2
Interest on scheme liabilities	**(0.3)**	(0.2)
Total included within finance costs	**–**	–
Total expenses charged through Income Statement	**(0.5)**	(0.5)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2006 £m	2005 £m
Actual return less expected return on scheme assets	**0.7**	(0.2)
Experience gains and (losses) arising on scheme liabilities	**(0.8)**	0.2
Total amounts recognised in the Statement of Recognised Income and Expense	**(0.1)**	–

Analysis of movements in scheme assets:

	2006 £m	2005 £m
Beginning of the year	**3.4**	3.0
Exchange differences	**0.4**	(0.1)
Expected return on scheme assets	**0.3**	0.2
Actual return less expected return on scheme assets	**0.7**	(0.2)
Contributions paid	**0.5**	0.5
End of the year	**5.3**	3.4

Analysis of movement in scheme liabilities:

	2006 £m	2005 £m
Beginning of the year	**(4.8)**	(4.4)
Exchange differences	**(0.4)**	0.1
Current service cost (included within staff costs)	**(0.5)**	(0.5)
Interest on scheme liabilities	**(0.3)**	(0.2)
Experience gains and (losses) arising on scheme liabilities	**(0.8)**	0.2
End of the year	**(6.8)**	(4.8)

Analysis of the movement in the Balance Sheet liability:

	2006 £m	2005 £m
Beginning of the year	**(1.4)**	(1.4)
Exchange differences	**–**	–
Total expenses charged through Income Statement	**(0.5)**	(0.5)
Total amounts recognised in the Statement of Recognised Income and Expense	**(0.1)**	–
Contributions paid	**0.5**	0.5
End of the year	**(1.5)**	(1.4)

21. Retirement benefit liabilities continued

France and Italy

The Group operates an unfunded retirement benefit scheme in France, with payments made to employees on retirement, and an unfunded termination indemnity plan in Italy, with payments made to employees on retirement or termination of service. The financial assumptions used to calculate the present value of the scheme liabilities at 31 March 2006 under the requirements of IAS 19 are shown below.

	2006	2005
Discount rate	**4.5%**	4.4%
Salary increases per annum	**2.25%–3.0%**	2.25%–3.0%
Price inflation per annum	**2.0%**	2.0%

The amounts recognised in the Balance Sheet are determined as follows:

	2006 £m	2005 £m
Total market value of assets	**–**	–
Present value of scheme liabilities	**(2.7)**	(2.5)
Net deficit in the scheme	**(2.7)**	(2.5)

The amounts recognised in the Income Statement are as follows:

	2006 £m	2005 £m
Current service cost (included within staff costs)	**(0.1)**	(0.1)
Expected return on scheme assets	**–**	–
Interest on scheme liabilities	**(0.1)**	(0.1)
Total included within finance costs	**(0.1)**	(0.1)
Total expenses charged through Income Statement	**(0.2)**	(0.2)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2006 £m	2005 £m
Changes in assumptions underlying the present value of scheme liabilities	**–**	(0.1)
Total amounts recognised in the Statement of Recognised Income and Expense	**–**	(0.1)

Analysis of movements in scheme assets:

	2006 £m	2005 £m
Beginning of the year	**–**	–
Contributions paid	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
End of the year	**–**	–

Analysis of movement in scheme liabilities:

	2006 £m	2005 £m
Beginning of the year	**(2.5)**	(2.2)
Exchange differences	**(0.1)**	(0.1)
Current service cost (included within staff costs)	**(0.1)**	(0.1)
Interest on scheme liabilities	**(0.1)**	(0.1)
Experience gains and (losses) arising on scheme liabilities	**–**	(0.1)
Benefits paid	**0.1**	0.1
End of the year	**(2.7)**	(2.5)

Notes on the Accounts

21. Retirement benefit liabilities continued

Analysis of the movement in the Balance Sheet liability:

	2006 £m	2005 £m
Beginning of the year	**(2.5)**	(2.2)
Exchange differences	**(0.1)**	(0.1)
Total expenses charged through Income Statement	**(0.2)**	(0.2)
Total amounts recognised in the Statement of Recognised Income and Expense	**–**	(0.1)
Contributions paid	**0.1**	0.1
End of the year	**(2.7)**	(2.5)

Total amounts recognised for the Group

The amounts recognised in the Income Statement are as follows:

	2006			2005		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Current service cost (included within staff costs)	**(1.3)**	**(0.6)**	**(1.9)**	(1.3)	(0.6)	(1.9)
Expected return on scheme assets	**4.9**	**0.3**	**5.2**	4.6	0.2	4.8
Interest on scheme liabilities	**(6.2)**	**(0.4)**	**(6.6)**	(5.7)	(0.3)	(6.0)
Total included within finance costs	**(1.3)**	**(0.1)**	**(1.4)**	(1.1)	(0.1)	(1.2)
Total Expense charged through Income Statement	**(2.6)**	**(0.7)**	**(3.3)**	(2.4)	(0.7)	(3.1)

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2006			2005		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Actual return less expected return on scheme assets	**10.7**	**0.7**	**11.4**	2.0	(0.2)	1.8
Experience gains and (losses) arising on scheme liabilities	**(1.6)**	**(0.8)**	**(2.4)**	(3.0)	0.2	(2.8)
Changes in assumptions underlying the present value of scheme liabilities	**(28.3)**	**–**	**(28.3)**	(6.2)	(0.1)	(6.3)
Total amounts recognised in the statement of Recognised Income and Expense	**(19.2)**	**(0.1)**	**(19.3)**	(7.2)	(0.1)	(7.3)

Analysis of movements in scheme assets:

	2006			2005		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Beginning of the year	**74.8**	**3.4**	**78.2**	68.4	3.0	71.4
Exchange differences	**–**	**0.4**	**0.4**	–	(0.1)	(0.1)
Expected return on scheme assets	**4.9**	**0.3**	**5.2**	4.6	0.2	4.8
Actual return less expected return on scheme assets	**10.7**	**0.7**	**11.4**	2.0	(0.2)	1.8
Contributions paid	**4.3**	**0.6**	**4.9**	4.3	0.6	4.9
Benefits paid	**(5.1)**	**(0.1)**	**(5.2)**	(4.7)	(0.1)	(4.8)
Member contributions	**0.2**	**–**	**0.2**	0.2	–	0.2
End of the year	**89.8**	**5.3**	**95.1**	74.8	3.4	78.2

21. Retirement benefit liabilities continued

Analysis of movement in scheme liabilities:

	2006 UK £m	2006 Overseas £m	2006 Total £m	2005 UK £m	2005 Overseas £m	2005 Total £m
Beginning of the year	**(116.5)**	**(7.3)**	**(123.8)**	(104.8)	(6.6)	(111.4)
Exchange differences	**–**	**(0.5)**	**(0.5)**	–	–	–
Current service cost (included within staff costs)	**(1.3)**	**(0.6)**	**(1.9)**	(1.3)	(0.6)	(1.9)
Interest on scheme liabilities	**(6.2)**	**(0.4)**	**(6.6)**	(5.7)	(0.3)	(6.0)
Experience gains and (losses) arising on scheme liabilities	**(1.6)**	**(0.8)**	**(2.4)**	(3.0)	0.2	(2.8)
Changes in assumptions underlying the present value of scheme liabilities	**(28.3)**	**–**	**(28.3)**	(6.2)	(0.1)	(6.3)
Benefits paid	**5.1**	**0.1**	**5.2**	4.7	0.1	4.8
Member contributions	**(0.2)**	**–**	**(0.2)**	(0.2)	–	(0.2)
End of the year	**(149.0)**	**(9.5)**	**(158.5)**	(116.5)	(7.3)	(123.8)

Analysis of the movement in the Balance Sheet liability:

	2006 UK £m	2006 Overseas £m	2006 Total £m	2005 UK £m	2005 Overseas £m	2005 Total £m
Beginning of the year	**(41.7)**	**(3.9)**	**(45.6)**	(36.4)	(3.6)	(40.0)
Exchange differences	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Total Expense charged through Income Statement	**(2.6)**	**(0.7)**	**(3.3)**	(2.4)	(0.7)	(3.1)
Total amounts recognised in the Statement of Recognised Income and Expense	**(19.2)**	**(0.1)**	**(19.3)**	(7.2)	(0.1)	(7.3)
Contributions paid	**4.3**	**0.6**	**4.9**	4.3	0.6	4.9
End of the year	**(59.2)**	**(4.2)**	**(63.4)**	(41.7)	(3.9)	(45.6)

Detail of experience gains and (losses)

Year ended 31 March 2006

	UK	**Overseas**	**Total**
Difference between expected and actual return on scheme assets:			
– Amount (£m)	10.7	0.7	11.4
– Percentage of scheme assets	11.9%	13.2%	12.0%
Experience gains and (losses) arising on scheme liabilities			
– Amount (£m)	(1.6)	(0.8)	(2.4)
– Percentage of scheme liabilities	(1.1%)	(8.4%)	(1.5%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	(19.2)	(0.1)	(19.3)
– Percentage of scheme liabilities	(12.9%)	(1.1%)	(12.2%)

Year ended 31 March 2005

	UK	**Overseas**	**Total**
Difference between expected and actual return on scheme assets:			
– Amount (£m)	2.0	(0.2)	1.8
– Percentage of scheme assets	2.7%	(5.9%)	2.3%
Experience gains and (losses) arising on scheme liabilities			
– Amount (£m)	(3.0)	0.2	(2.8)
– Percentage of scheme liabilities	(2.6%)	2.7%	(2.3%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	(7.2)	(0.1)	(7.3)
– Percentage of scheme liabilities	(6.2%)	(1.4%)	(5.9%)

Notes on the Accounts

21. Retirement benefit liabilities continued

Year ended 31 March 2004

	UK	Overseas	Total
Difference between expected and actual return on scheme assets:			
– Amount (£m)	5.8	0.3	6.1
– Percentage of scheme assets	8.5%	10.7%	8.5%
Experience gains and (losses) arising on scheme liabilities			
– Amount (£m)	1.1	0.3	1.4
– Percentage of scheme liabilities	1.1%	4.5%	1.3%
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	2.5	0.1	2.6
– Percentage of scheme liabilities	2.4%	1.5%	2.3%

Year ended 31 March 2003

	UK	Overseas	Total
Difference between expected and actual return on scheme assets:			
– Amount (£m)	(14.7)	(0.1)	(14.8)
– Percentage of scheme assets	(23.7%)	(4.2%)	(23.0%)
Experience gains and (losses) arising on scheme liabilities			
– Amount (£m)	(2.5)	(0.1)	(2.6)
– Percentage of scheme liabilities	(2.5%)	(1.5%)	(2.5%)
Total amounts recognised in the Statement of Recognised Income and Expense			
– Amount (£m)	(24.0)	(0.7)	(24.7)
– Percentage of scheme liabilities	(24.2%)	(10.4%)	(23.3%)

The Group adopted FRS 17 in the year ended 31 March 2003 and the above disclosures for the years ended 31 March 2003 and 31 March 2004 are stated under UK GAAP on an FRS 17 basis. The disclosures for the years ended 31 March 2005 and 31 March 2006 are stated under IFRS on an IAS 19 basis.

The impact of the move from FRS 17 to IAS 19 on the Balance Sheet pensions liability is detailed in note 26 'Transition adjustments'.

22. Share capital

	2006	2005
Authorised		
190,688,306 shares of 5p each	**9.5**	9.5
Allotted, issued and fully paid		
144,762,868 shares of 5p each	**7.2**	7.2

Potential issues of ordinary shares
Certain senior executives hold options to subscribe for shares in the Company at prices ranging from nil pence per share to 45 pence per share under the share options schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted, and the periods in which they may be exercised are given below:

Scheme	Year of grant	Average exercise price per share	Exercise period	Numbers 2006	2005
Sharesave option plan		47p–76p	up to 29 February 2008	**967,491**	1,330,801
Executive share option plan	1994	49p–236p	up to 20 June 2012	**2,277,500**	2,849,000
US stock option plan		49p–195.5p	up to 20 June 2012	**1,184,000**	1,189,000
Performance share plan	2004	nil pence per share	up to 15 August 2014	**1,100,000**	1,700,000

Movements in the Performance Share Plan relate to options which have been restated. Movements in all other schemes relate to options which have expired.

23. Reserves

	Share capital £m	Translation reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
Balance at 1 April 2004	7.2	–	37.3	0.1	44.6
Currency translation differences	–	1.3	–	0.1	1.4
Actuarial loss on pension schemes	–	–	(7.3)	–	(7.3)
Net income recognised directly in equity	–	1.3	(7.3)	0.1	(5.9)
Profit for the period	–	–	2.1	0.1	2.2
Total recognised income for the period	–	1.3	(5.2)	0.2	(3.7)
Employee share option scheme					
– value of employee services	–	–	0.1	–	0.1
Dividend	–	–	(0.5)	–	(0.5)
Acquisition of remaining 25% holding in					
Scapa Hong Kong Limited	–	–	–	(0.3)	(0.3)
	–	–	(0.4)	(0.3)	(0.7)
Balance at 31 March 2005	**7.2**	**1.3**	**31.7**	**–**	**40.2**

	Share capital £m	Translation reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
Balance at 31 March 2005	7.2	1.3	31.7	–	40.2
IFRS transition adjustments (IAS 39)	–	–	0.2	–	0.2
Balance at 1 April 2005	7.2	1.3	31.9	–	40.4
Currency translation differences	–	2.3	–	–	2.3
Actuarial loss on pension schemes	–	–	(19.3)	–	(19.3)
Net income recognised directly in equity	–	2.3	(19.3)	–	(17.0)
Loss for the period	–	–	(15.3)	–	(15.3)
Total recognised income for the period	–	2.3	(34.6)	–	(32.3)
Employee share option scheme					
– value of employee services	–	–	0.1	–	0.1
	–	–	0.1	–	0.1
Balance at 31 March 2006	**7.2**	**3.6**	**(2.6)**	**–**	**8.2**

The Group has taken the exemption not to restate comparatives for IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement', which came into effect for accounting periods beginning on or after 1 January 2005. The adoption of these standards on 1 April 2005 resulted in the recognition of a number of financial instruments in the opening balance sheet on this date, increasing reserves by £0.2m.

At 31 March 2006 financial assets of £0.2m and 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.

It is Group policy to hedge account for instruments used to hedge against exchange differences arising from the translation of the net investment in foreign entities. These instruments include foreign currency borrowings and forward foreign exchange contracts. Accordingly gains and losses on the revaluation of these instruments at each balance sheet date are recognised directly in equity. 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. These instruments include the contracts to swap bank borrowings from US Dollars to Euros and Swiss Francs.

The comparative figures for financial instruments at 31 March 2005 are stated under UK GAAP as permitted by IFRS 1 'First Time Adoption'. Fair values at the Balance Sheet date are calculated by comparing contract rate to spot rate at this date.

Cumulative actuarial losses on pension schemes recognised in reserves total **£26.6m** (2005: £7.3m).

Notes on the Accounts

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

All on continuing operations	**Year ended 31 March 2006 £m**	Year ended 31 March 2005 £m
Operating profit/(loss)	**(11.6)**	(1.2)
Adjustments for:		
Depreciation	**6.4**	6.9
Loss on disposal of fixed assets	**0.2**	0.2
Impairment of tangible fixed assets	**2.8**	3.6
Impairment of goodwill	**10.9**	–
Pensions payments in excess of charge	**(3.0)**	(3.0)
Movement in fair value of financial instruments	**0.1**	–
Share options charge	**0.1**	0.1
Grant income released	**(0.2)**	(0.1)
Changes in working capital:		
– Inventories	**(1.3)**	(1.6)
– Trade debtors	**(0.7)**	(0.8)
– Trade creditors	**(0.6)**	(1.5)
Changes in trading working capital	**(2.6)**	(3.9)
Other debtors	**(0.6)**	1.2
Other creditors	**0.4**	(1.2)
Net movement in other provisions	**(0.2)**	0.2
Net movement in leasehold commitment provisions	**0.8**	(0.2)
Net movement in asbestos litigation provision	**(1.4)**	(1.1)
Cash generated from operations	**2.1**	1.5

Cash generated from operations before reorganisation and movements in exceptional provisions	**6.3**	3.7
Cash outflows from reorganisation and movements in exceptional provisions	**(4.2)**	(2.2)
Cash generated from operations	**2.1**	1.5

Analysis of net debt

	At 1 April 2005 £m	Cash flow £m	Release of arrangement fees £m	Exchange movement £m	**At 31 March 2006 £m**
Cash and cash equivalents	8.1	(5.1)	–	0.4	**3.4**
Overdrafts	(2.4)	(0.1)	–	–	**(2.5)**
	5.7	(5.2)	–	0.4	**0.9**
Borrowings within one year	(0.7)	0.2	–	–	**(0.5)**
Borrowings after more than one year	(20.2)	7.8	(0.1)	(1.1)	**(13.6)**
	(20.9)	8.0	(0.1)	(1.1)	**(14.1)**
Total	(15.2)	2.8	(0.1)	(0.7)	**(13.2)**

Reconciliation of net cash flow to movement in net debt

	2006 £m	**2006 £m**	2005 £m	2005 £m
Increase/(decrease) in cash and cash equivalents				
Decrease in net cash and cash equivalents in the year	**(5.2)**		(3.8)	
Cash outflow from decrease in loan finance	**8.0**		1.9	
Change in net debt resulting from cash flows		**2.8**		(1.9)
Release of arrangement fees		**(0.1)**		–
Translation differences		**(0.7)**		0.4
Movement in net debt		**2.0**		(1.5)
Net debt at start of year		**(15.2)**		(13.7)
Net debt at end of year		**(13.2)**		(15.2)

25. Commitments

Capital commitments
Amounts contracted for at 31 March 2006 but not provided for in the accounts amounted to **£0.8m** (2005: £0.1m).

All amounts in 2005 related to subsidiary undertakings.

At 31 March 2006 a total of **£nil** (2005: £nil) was authorised but not yet contracted.

Operating lease commitments
At 31 March 2006 the Group has lease agreements in respect of properties, vehicles, plant and equipment, for which payments extend over a number of years.

Commitments under leases expiring:	**2006** Property £m	**2006** Vehicles, plant and equipment £m	2005 Property £m	2005 Vehicles, plant and equipment £m
Within one year	**–**	**0.2**	–	0.1
More than one year and less than five years	**1.8**	**2.3**	1.3	3.5
After five years	**15.5**	**–**	17.7	–
Total operating lease commitments	**17.3**	**2.5**	19.0	3.6

26. Transition adjustments

The Group has been reporting its results in accordance with IFRS since 1 April 2005. Previous financial information was reported in accordance with UK GAAP. All comparative data included in this report has been restated accordingly with the exception of financial instruments as the Group has taken the exemption not to restate comparatives for IAS 32 and IAS 39.

In accordance with the requirements of IFRS 1 the following reconciliations have been provided in this report:

– A reconciliation of profit/(loss) under UK GAAP for the year ended 31 March 2005 to the profit/(loss) under IFRS for the year ended 31 March 2005
– A reconciliation of equity at 1 April 2004 under UK GAAP to 1 April 2004 under IFRS
– A reconciliation of equity at 31 March 2005 under UK GAAP to 31 March 2005 under IFRS

The adoption of IFRS has not resulted in any changes to the consolidated cash flow statement.

Reconciliation of profit for the year

Year ended 31 March 2005	**UK GAAP**	**Adjustments**				**IFRS**
	£m	**Loss on disposal (a) £m**	**Employee benefits (b) £m**	**Goodwill (c) £m**	**Taxation (d) £m**	**£m**
Turnover	188.2	–	–	–	–	188.2
Operating profit before goodwill amortisation	3.6	(0.2)	(0.1)	–	–	3.3
Goodwill amortisation	(1.4)	–	–	1.4	–	–
Operating profit from the ordinary course of business	2.2	(0.2)	(0.1)	1.4	–	3.3
Reorganisation costs	(0.9)	–	–	–	–	(0.9)
Property, plant and equipment impairment	(3.6)	–	–	–	–	(3.6)
Total operating loss	(2.3)	(0.2)	(0.1)	1.4	–	(1.2)
Loss on disposal of fixed assets	(0.2)	0.2	–	–	–	–
Loss on ordinary activities before interest and taxation	(2.5)	–	(0.1)	1.4	–	(1.2)
Net finance costs	(2.4)	–	–	–	–	(2.4)
Loss on ordinary activities before taxation	(4.9)	–	(0.1)	1.4	–	(3.6)
Taxation	6.3	–	–	–	(0.5)	5.8
Profit/(loss) on ordinary activities after taxation	1.4	–	(0.1)	1.4	(0.5)	2.2
Minority interests	(0.1)	–	–	–	–	(0.1)
Retained profit for the period	1.3	–	(0.1)	1.4	(0.5)	2.1
Basic and diluted earnings per share (p)	0.9	–	(0.1)	1.0	(0.3)	1.5

Notes on the Accounts

26. Transition adjustments continued

Reconciliation of equity

31 March 2005	Share capital £m	Retained earnings £m	Translation reserve £m	**Equity holders of the parent £m**	Minority interests £m	**Total equity £m**
UK GAAP	7.2	32.4	–	39.6	–	39.6
IFRS adjustments:						
Employee benefits (b)	–	(1.3)	–	(1.3)	–	(1.3)
Goodwill (c)	–	1.4	–	1.4	–	1.4
Exchange differences (e)	–	(1.3)	1.3	–	–	–
Taxation (d)	–	0.5	–	0.5	–	0.5
IFRS	7.2	31.7	1.3	40.2	–	40.2

1 April 2004	Share capital £m	Retained earnings £m	Translation reserve £m	**Equity holders of the parent £m**	Minority interests £m	**Total equity £m**
UK GAAP	7.2	37.1	–	44.3	0.1	44.4
IFRS adjustments:						
Employee benefits (b)	–	(1.2)	–	(1.2)	–	(1.2)
Taxation (d)	–	1.0	–	1.0	–	1.0
Dividend (f)	–	0.4	–	0.4	–	0.4
IFRS	7.2	37.3	–	44.5	0.1	44.6

Explanation of reconciling items:

(a) Loss on disposal of assets
Under UK GAAP the profit or loss on disposal of property, plant and equipment was shown below operating profit. However under IFRS this is included above the operating profit line.

(b) Employee benefits
Accounting for pensions in accordance with IAS 19 is different from FRS 17. The main differences are:
– pension assets are valued at bid value under IAS, whereas a mid market valuation is used under FRS 17
– under FRS 17 the pensions deficit was shown net of the related deferred tax asset. However this is not permitted under IAS 19 and the gross liability is presented on the face of the Balance Sheet.

The Group has elected to recognise actuarial gains and losses in full in reserves under IAS 19 and to continue to show service costs and finance costs separately rather than to combine these as a net charge to operating profit.

(c) Goodwill
The transitional arrangements of IFRS 1 allow companies to apply IFRS 3 prospectively and to freeze the value of goodwill at the transition date rather than restating business combinations prior to 1 April 2004. Scapa Group plc has chosen to make use of this exemption rather than to restate previous acquisitions. Goodwill on acquisitions prior to 31 December 1997 remains eliminated against reserves, and goodwill shown as an asset on the Balance Sheet is frozen at the value at 1 April 2004, with amortisation since this date previously reported under UK GAAP removed.

(d) Taxation
IAS 12 requires deferred tax to be calculated based on all taxable temporary differences, except where they arise in certain specific circumstances. Deferred tax balances can no longer be discounted and any assets can only be recognised to the extent that it is probable that taxable profits will arise against which the asset can be utilised.

The underlying adjustments making up this summary are as follows:
– Recognition of a deferred tax asset in respect of the US goodwill (year ended 31 March 2005 £0.4m).
– Recognition of a deferred tax asset in respect of the liquidation of a dormant Irish subsidiary (year ended 31 March 2005 £0.1m).

Other adjustments made to the presentation of corporate and deferred tax in the Balance Sheet include:
– Movement of a current tax provision to deferred tax as this represents a temporary difference (£4.0m at 31 March 2005).
– Movement of the deferred tax asset related to the pension deficit to deferred tax (£1.0m at 31 March 2005). This was previously netted off against the pension deficit on the UK GAAP Balance Sheet.

26. Transition adjustments continued

(e) Exchange differences
Under IFRS cumulative exchange differences on the retranslation of opening net assets are shown in a separate reserve. As permitted by the IFRS 1 exemption, these cumulative exchange differences recognised in the translation reserve were reset to zero on the date of transition to IFRS. Under UK GAAP these were included in Retained Earnings. IAS 21 requires cumulative exchange differences on the translation of foreign operations to be included in the calculation of the profit or loss on disposal of the business.

(f) Dividends
Under UK Company Law, companies were required to provide for their final dividend in their closing balance sheet and in advance of the dividend being declared and approved by the Annual General Meeting. Under IAS 10 the dividend cannot be provided in the year end Balance Sheet as, at that date, the dividend did not represent a liability. At 1 April 2004 accrued dividends of £0.4m were removed from other liabilities.

27. Post Balance Sheet Event

On 30 May 2006 the Group received an offer of £16.8m for its Megolon business and assets, which operates out of the UK North site. This offer has been recommended to shareholders by the Board and is subject to shareholder approval. The profit on disposal is estimated to be £8.5m.

28. Contingent liabilities

In the United States various Group companies, together with numerous and diverse non Scapa Group parties, are named as defendants in claims in which damages are being sought for personal injury arising from alleged exposure to asbestos. As at 31 March 2006 32,607 (30 September 2005 33,658, 31 March 2005 33,878) plaintiffs have brought claims in 20 states (Georgia, Florida, Louisiana, Mississippi, North Carolina, South Carolina, Ohio, California, New Jersey, New York, Pennsylvania, Alabama, Arkansas, Illinois, Maryland, Washington, Delaware, Oklahoma, Virginia and Texas). Scapa has continued to be dismissed from many cases during 2005/06.

The claims, so far as the Scapa Group defendants are concerned, primarily relate to the Waycross business carried on by Scapa Dryer Fabrics, Inc. as part of the Paper Machine Clothing business. The Waycross business consisted of the manufacture and supply of dryer fabrics to paper manufacturers. As was common with the industry between approximately 1958 and 1978, the Waycross business used yarn containing chrysotile asbestos in some of its dryer fabrics.

The plaintiffs, who are mostly former paper mill employees (or their dependants) allege that asbestos fibres were released when they cleaned the dryer fabrics by blowing compressed air across them. It is also alleged that exposure to asbestos fibres occurred during installation and removal of dryer fabrics, during the routine maintenance, and even as a result of normal wear and tear. To date there have been 7 sets of jury trials in the United States – in Louisiana and Washington State (covering 5 plaintiffs each), in Oregon (1 plaintiff), in Arkansas (5 plaintiffs), in Maryland (2 cases covering 1 plaintiff and 1 plaintiff and wife) and Pennsylvania (1 plaintiff).

In February 2005 an adverse judgement totalling US$162,500 (£91,300) in respect of 7 plaintiffs was entered in Washington Parish, Louisiana. Upon advice of counsel, the Board believes there are multiple grounds for appeal which should provide sufficient basis for the appellate court to reverse the judgement. The disruptive effect which Hurricane Katrina had in the State of Louisiana has included the judicial system and it is not yet known when it will be possible for the appeal to proceed. The Company believes, upon the advice of counsel, that sufficient legal error occurred before and during the trial to make it more likely than not that the judgement will not be upheld on appeal. The Company has retained as insurance coverage counsel, Mr Andrew Hill of the Blasingame, Burch, Garrard, Bryant & Ashley firm of Athens, Georgia, who advises that he believes there is sufficient liability insurance to satisfy the judgement in full if it is not reversed.

In October 2003, a US$3m (£1.7m) adverse judgement was entered in the Maryland State Court on the claims of a former paper mill employee. The Company successfully appealed the judgement and the plaintiff's further appeal has been denied. The case has been remanded to the lower court for a retrial but the Company is advised by counsel that a new trial is unlikely to take place before 2007.

During May 2006, a trial before a jury took place in the Court of Common Pleas for the First Judicial District of Pennsylvania on the claims of a retired paper mill worker. During the trial the Company put evidence before the court that the plaintiff's medical conditions had been incorrectly diagnosed as mesothelioma and could not therefore have been caused by exposure to asbestos-containing materials. The jury determined that the plaintiff had failed to prove that he was suffering from an asbestos-related disease, resulting in a dismissal of the claim by the court.

Scapa Dryer Fabrics, Inc. and the other Scapa Group companies named as defendants are vigorously defending all of the outstanding claims against them. In the USA, no Scapa Group company or its insurance carrier has admitted liability to date or made any payment to any plaintiff under our policies, either as the result of any judgement or by way of settlement. Based upon our advice from counsel, the Board believes that it is unlikely that significant uninsured liabilities will arise from this litigation.

Five Year Summaries

On 1 April 2004 the Group adopted IFRS and as a result the figures published in the 2005 annual report have been restated from UK GAAP to IFRS. Restatement of earlier years is not required under IFRS and accordingly the information presented below for periods ended prior to the transition date is as prepared under UK GAAP. The main adjustments that would be required to comply with IFRS would be the removal of goodwill amortisation and the timing of the recognition of dividend payments.

Five Year Financial Summary

	IFRS		UK GAAP		
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Group turnover	**191.5**	188.2	187.9	187.0	194.4
Exports from UK (net of intra-Group sales)	**28.3**	29.2	30.2	26.9	24.0
Group profits					
Profit before taxation and exceptional items	**2.6**	0.9	2.6	1.5	5.8
Exceptional items (operating charges)	**(17.1)**	(4.5)	(10.8)	(17.1)	(12.4)
Exceptional items (non-operating charges)	**–**	–	–	(5.8)	(0.4)
Loss before taxation	**(14.5)**	(3.6)	(8.2)	(21.4)	(7.0)
Taxation (charge)/credit	**(0.8)**	5.8	4.1	(0.1)	1.8
(Loss)/profit after taxation	**(15.3)**	2.2	(4.1)	(21.5)	(5.2)
Net debt	**13.2**	15.2	13.7	15.7	18.9
Shareholders' funds – equity	**8.2**	40.2	44.3	51.4	113.9

Comparative figures for 2002, 2003 and 2004 are stated on a UK GAAP basis, however 2003 figures have been restated following the adoption of FRS17. 2002 figures included pension costs accounted for on a SSAP24 basis. Comparative figures for 2005 have been restated to an IFRS basis.

	2006	2005	2004	2003	2002
US$ exchange rate					
– Closing	**1.74**	1.89	1.84	1.58	1.42
– Average	**1.78**	1.85	1.69	1.54	1.43
Euro exchange rate					
– Closing	**1.45**	1.45	1.50	1.45	1.63
– Average	**1.46**	1.47	1.44	1.56	1.62

Principal Subsidiary Companies

As at 31 March 2006 the principal subsidiaries of the Company were:

Holding and Management Companies	Country of Incorporation	
Porritts & Spencer Ltd*	England	Holding company
Lindsay and Williams Ltd*	England	Holding company
Scapa North America Inc	USA	Holding company
Scapa Holdings Inc	USA	Holding company
Scapa Holdings (Georgia) Inc	USA	Holding company
Scapa Holdings GmbH	Germany	Holding company
Scapa Group Holdings GmbH	Austria	Holding company
Scapa Holdings Canada Inc	Canada	Holding company
Groupe Scapa France SAS	France	Holding company
Scapa (HK) Holdings Ltd	Hong Kong	Holding company

Technical Tapes Companies	
Scapa Tapes North America Ltd	Canada
Scapa France SAS	France
Scapa Deutschland GmbH	Germany
Scapa Tapes Ireland Ltd	Ireland
Scapa Italia SpA	Italy
Scapa Tapes Benelux BV	Netherlands
Scapa Ibérica, S.A.	Spain
Scapa (Schweiz) AG	Switzerland
Scapa UK Ltd	England
Scapa Tapes North America (Windsor) Inc	USA
Scapa Tapes North America (Carlstadt) Inc	USA
Scapa Extruded Films Inc	USA
Acutek International Inc	USA
Scapa Tapes (Korea) Co. Ltd	Korea
Scapa Hong Kong Ltd	Hong Kong
Scapa Tapes Malaysia Sdn Bhd	Malaysia
Scapa (Shanghai) International Trading Company Ltd	China

*** Denotes the undertakings which are held directly by Scapa Group plc. All the subsidiaries listed are wholly owned and are incorporated in and operate from the countries named.**

Scapa Group plc
Parent Company Financial Statements

The separate financial statements of Scapa Group plc are presented on pages 68 to 76, as required by the Companies Act 1985 ('the Act'). The Group has elected not to adopt International Financial Reporting Standards in the individual company accounts for the parent company and subsidiary undertakings, and accordingly these financial statements have been prepared under UK accounting standards and in accordance with the Act. They are therefore presented separately to the Group consolidated financial statements which have been prepared under International Financial Reporting Standards.

Independent Auditors' Report to the Members of Scapa Group plc

We have audited the parent company financial statements of Scapa Group plc for the year ended 31 March 2006 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Scapa Group plc for the year ended 31 March 2006.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the parent company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
7 June 2006

Company Balance Sheet

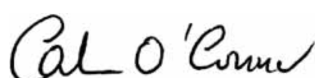
As at 31 March 2006

	Note	**31 March 2006 £m**	31 March 2005 £m
Fixed assets			
Tangible fixed assets	2	**2.1**	4.7
Investments in subsidiary undertakings	3	**147.4**	148.1
		149.5	152.8
Current assets			
Debtors: amounts due within one year	4	**83.0**	57.7
Debtors: amounts due after more than one year	4	**20.2**	21.6
		103.2	79.3
Cash at bank and in hand		**–**	0.8
		103.2	80.1
Creditors – amounts falling due within one year			
Bank loans and overdrafts	6	**3.3**	7.1
Creditors	5	**154.2**	116.6
		157.5	123.7
Net current liabilities		**(54.3)**	(43.6)
Total assets less current liabilities		**95.2**	109.2
Creditors – amounts falling due after more than one year			
Bank loans and overdrafts	6	**13.5**	20.2
Creditors	5	**–**	0.1
		13.5	20.3
Provisions for liabilities and charges	7	**0.4**	–
Net assets excluding pension liability		**81.3**	88.9
Net pension liability	10	**29.0**	22.8
Net assets		**52.3**	66.1
Shareholders' equity			
Called-up share capital	8	**7.2**	7.2
Other reserves	9	**10.1**	10.1
Profit and loss account	9	**35.0**	48.8
Shareholders' funds – equity		**52.3**	66.1

The notes on pages 70 to 76 form part of these accounts.

These accounts were approved by the Directors on 7 June 2006.

C J O'Connor
Chief Executive Officer



C M White
Group Finance Director

Statement of Accounting Policies

Basis of accounting
The accounts are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The Company has adopted FRS 21, 'Events after the balance sheet date' , FRS 25 'Financial Instrument: Presentation', and FRS 26, 'Financial Instrument: Measurement' during the year.

The adoption of these standards represents a change in accounting policy.

The effect of the change in accounting policy to adopt FRS 21 was to recognise the final proposed dividend for the year end 31 March 2004 of £0.4m in the year ended 31 March 2005.

The effect of the change in accounting policy to adopt FRS 26 was, at 1 April 2005, to decrease the value of borrowings by £0.1m to recognise financial instruments of £0.1m within current assets.

A summary of the Company's principal accounting policies is set out below. These have been applied consistently throughout the year.

Financial instruments
As described above, the Company has adopted FRS 26 'Financial Instrument: Measurement' during the period.

The Company uses derivative financial instruments to hedge its exposure to interest rates and short-term currency rate fluctuations. The Company does not apply hedge accounting in its financial statements and accordingly all gains and losses on the transaction and movements in fair value of the instruments are taken through the profit and loss account.

Tangible fixed assets
Tangible fixed assets are stated at cost less cumulative depreciation and impairment. Depreciation is provided on the basis of writing off the cost of the relevant assets over their expected useful lives. The Company applies the straight line method. The effect is to reduce the cost of plant, machinery and fixtures to estimated residual value over a period of 5-20 years.

Taxation
The charge for taxation is based on the taxable profits and losses for the year and takes into account deferred taxation. Full provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax assets are only recognised to the extent that their recoverability is regarded as more likely than not.

Provisions
Provisions are made in accordance with FRS 12 where an obligation exists for a future liability in respect of a past event and where the amount of obligation can be reliably estimated. Provision is made for vacant and sub-let leasehold properties to the extent that future rental payments are expected to exceed future rental income and for all other known liabilities which exist at the Balance Sheet date, based on management's best estimate as to the cost of settling these liabilities. These provisions are discounted in line with FRS 12 guidelines at a risk free discount rate.

Pension costs
Pension costs are accounted for under FRS 17 'Retirement Benefits'.

(i) Defined Benefit Pension Schemes
For defined benefit schemes, the cost of benefits accruing during the year in respect of current and past service is charged against operating profit. The expected return on the scheme's assets and the increase in the present value of the scheme's liabilities arising from the passage of time, are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The Balance Sheet includes the deficit in schemes taking assets at their year-end market values and liabilities at their actuarially calculated value discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

(ii) Defined Contribution Pension Schemes
Amounts charged in respect of defined contribution pension schemes represent contributions payable in the year.

Fixed asset investments
Fixed asset investments are stated at cost, less provision for any impairment in value. Where circumstances indicate that there may have been an impairment in the carrying value of a tangible or intangible fixed asset, an impairment review is carried out using cash flows from approved budgets and projections discounted at the Group's weighted average cost of capital.

Share-based payments
The fair value of employee share options plans is calculated using the binomial model in accordance with FRS 20 'Share-based payments'. The resulting cost is charged to the profit and loss account over the vesting period of the options. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Notes on the Accounts

1. Profit and loss account

The Company loss for the year, before charging dividends, is **£6.8m** (2005: £1.8m). As permitted by s.230(3) of the Companies Act 1985 a separate profit and loss account has not been presented.

2. Tangible fixed assets

	Plant, equipment, fixtures and computer systems £m
Cost	
At 1 April 2005	11.8
Additions	0.1
Disposals	(1.2)
At 31 March 2006	10.7
Depreciation	
At 1 April 2005	7.1
Depreciation	1.3
Disposals	(1.1)
Impairment	1.3
At 31 March 2006	8.6
Net book value at 31 March 2006	**2.1**
Net book value at 31 March 2005	4.7

The impairment in the year relates to the European Computer System, as the carrying value of this asset has been found to be in excess of discounted future cash flows of certain European operations.

3. Investments

	Shares in Group undertakings £m
Cost	
At 1 April 2005	183.1
At 31 March 2006	183.1
Provision for impairment in value	
At 1 April 2005	35.0
Provided during the year	0.7
At 31 March 2006	35.7
Net book value at 31 March 2006	**147.4**
Net book value at 31 March 2005	148.1

Following the impairment of the Company's investments in subsidiary undertakings in 2003, a 'look-back' test has been performed in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. The existing provision was calculated by comparing the net book value of the Company's investments and long-term inter-company receivables with the future cash flows of those subsidiaries based on budgets and forecasts approved by the Group Board, discounted using the Group's weighted average pre-tax cost of capital of 12.2%. This test confirmed that a further impairment of £0.7m of the Company's investments was required for the current year ended 31 March 2006.

The principal subsidiaries of the parent undertaking are shown on page 65.

4. Debtors

	2006 £m	2005 £m
Amounts due within one year:		
Amounts owed by subsidiary undertakings	**82.1**	57.2
Other debtors	**0.7**	0.2
Prepayments and accrued income	**0.2**	0.3
Total amounts due within one year	**83.0**	57.7
Amounts due after more than one year:		
Amounts owed by subsidiary undertakings	**20.2**	21.6
Total amounts due after more than one year	**20.2**	21.6
Total debtors	**103.2**	79.3

5. Creditors

	2006 £m	2005 £m
Amounts due within one year:		
Amounts owed to subsidiary undertakings	**152.3**	115.1
Taxation	**0.9**	0.2
Other taxes and social security	**–**	0.1
Other creditors	**0.4**	0.5
Accruals and deferred income	**0.6**	0.7
Total amounts due within one year	**154.2**	116.6
Amounts due after more than one year:		
Other creditors	**–**	0.1
Total amounts due after more than one year	**–**	0.1

Notes on the Accounts

6. Financial instruments

The Company's policies in respect of financial instruments are detailed in the accounting policies on page 69 which forms part of the annual report and accounts.

The Company has been required to implement FRS 26 in the year ended 31 March 2006, and the fair value of all derivative financial instruments are now included in the Balance Sheet. As permitted under the transitional provisions of the standard, prior year comparatives have not been restated and accordingly the fair value of the instruments at 1 April 2005 has been taken to reserves as the impact of adopting the new standard in the year.

Financial assets

Interest rate exposure is managed through a mix of capped and floating rate debt, with a small portion of fixed rate debt.

An interest rate cap was taken out in August 2004 covering a principal of US$10m for a three-year term. The cap rate is fixed at 3.5%. Had this cap been cancelled at 31 March 2006 there would have been compensation receivable of $0.2m. This effectively caps interest payable on US$10m of debt at a rate based on three-month US Dollar LIBOR of 3.5% during that three-year period. If market rates exceed the capped rate at any time during that period, then the issuer becomes liable to reimburse Scapa with the difference. As Dollar interest rates have moved above 3.5% during the last financial year, Scapa has received a small amount of compensation in respect of this instrument, which has a positive fair value as indicated. Scapa has no further financial obligation under the terms of this instrument under any circumstances. The interest rate cap is deemed to have a floating interest rate.

Financial liabilities

	2006 **£m**	2005 £m
Amounts due within one year		
Bank overdrafts	**2.9**	6.4
Other loans	**0.4**	0.7
Total amounts due within one year	**3.3**	7.1
Amounts due after more than one year		
Bank borrowings	**13.5**	20.2
Total amounts due after more than one year	**13.5**	20.2
Total borrowings	**16.8**	27.3

Bank borrowings comprise £13.9m of drawings under the committed facility less £0.4m of facility fees, which are being amortised over the term of the facility. Bank borrowings are secured via a cross guarantee between the Company and its subsidiaries on specific land and buildings, plant and equipment and inventory and receivables. The available borrowing facility for committed long-term debt reduced by £2.5m in March 2006 to £25m and this facility was extended to a new expiry date of 30 September 2007.

The Group also has in place a cross guarantee between the parent company and its UK subsidiaries in respect of bank loans and other financial obligations which amounted at 31 March 2006 to £3.0m.

The exposure of the Company to interest rate changes and the contractual repricing dates are as follows:

	6 months or less **£m**	**6-12 months** **£m**	**1-5 years** **£m**	**Total** **£m**
31 March 2006				
Total borrowings	3.3	–	13.5	16.8
Effect of interest rate swaps	–	–	(0.1)	(0.1)
	3.3	–	13.4	16.7
31 March 2005				
Total borrowings	7.1	–	20.2	27.3
Effect of interest rate swaps	–	–	(0.1)	(0.1)
	7.1	–	20.1	27.2

6. Financial instruments continued

The effective interest rates at the Balance Sheet date were as follows:

	Sterling	US and Canadian Dollars	Other currencies
31 March 2006			
Bank overdrafts	5.5%	–	–
Other loans	5.5%	–	–
Bank borrowings	6.4%	6.3%	2.7%
31 March 2005			
Bank overdrafts	5.75%	–	–
Other loans	5.5%	–	–
Bank borrowings	6.7%	4.2%	2.5%

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2006 £m	2005 £m
Sterling	**5.2**	11.3
US and Canadian Dollars	**10.9**	14.2
Other Currencies	**0.7**	1.8
	16.8	27.3

The Company has the following undrawn borrowing facilities:

	2006 £m	2005 £m
Floating rate		
– Expiring within one year	**5.0**	1.6
– Expiring after more than one year	**11.5**	9.8
	16.5	11.4

Maturity of non-current financial assets and liabilities

	1-2 years £m	More than 5 years £m	Total £m
31 March 2006			
Debtors	–	20.2	20.2
Bank borrowings	(13.5)	–	(13.5)
	(13.5)	20.2	6.7
31 March 2005			
Debtors	–	21.6	21.6
Bank borrowings	(20.2)	–	(20.2)
Other creditors	(0.1)	–	(0.1)
	(20.3)	21.6	1.3

Fair and book values of non-current financial assets and liabilities

	Book value £m	Fair value £m
31 March 2006		
Debtors	20.2	20.2
Bank borrowings	(13.5)	(13.5)
	6.7	6.7
31 March 2005		
Debtors	21.6	21.6
Bank borrowings	(20.2)	(20.2)
Other creditors	(0.1)	(0.1)
	1.3	1.3

Notes on the Accounts

7. Provisions

	Onerous lease provision £m
At 1 April 2005	–
Provided in the year	0.5
Utilised in the year	(0.1)
At 31 March 2006	**0.4**
Analysis of provisions:	
Current	0.1
Non-current	0.3
Total provisions	**0.4**

Onerous lease
During the year the Company relocated its head office to the Ashton-under-Lyne facility. The Company has provided £0.4m to cover the remaining period of the lease.

8. Share capital

	2006 £m	2005 £m
Authorised		
190,688,306 shares of 5p each	**9.5**	9.5
Allotted, issued and fully paid		
144,762,868 shares of 5p each	**7.2**	7.2

Potential issues of ordinary shares
Certain senior executives hold options to subscribe for shares in the Company at prices ranging from nil pence per share to 45 pence per share under the share options schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted, and the periods in which they may be exercised are given below:

Scheme	Year of grant	Average exercise price per share (pence)	Exercise period	Numbers
Sharesave option plan		47p–76p	up to 29 February 2008	967,491
Executive share option plan	1994	49p–236p	up to 20 June 2012	2,277,500
US stock option plan		49p–195.5p	up to 20 June 2012	1,184,000
Performance share plan	2004	nil pence per share	up to 15 August 2014	1,100,000

9. Reconciliation of shareholders' equity

	Share capital £m	Other reserves £m	Profit and Loss Account £m	Total £m
Balance at 1 April 2005	**7.2**	10.1	48.8	66.1
Transitional adjustment – FRS 26	**–**	–	0.1	0.1
Balance at 1 April 2005 as restated	**7.2**	10.1	48.9	66.2
Loss for the period	**–**	–	(6.8)	(6.8)
Actuarial (loss)/gain on pension schemes	**–**	–	(7.1)	(7.1)
Balance at 31 March 2006	**7.2**	**10.1**	**35.0**	**52.3**

The transitional requirements of FRS 26 allow the fair value of derivative financial instruments held by the Company at 1 April 2005 to be taken directly to reserves, and accordingly no restatement of prior year comparatives has been required as a result of adopting this standard. The transitional adjustment is reflected in the above analysis and derivative financial instruments are discussed in more detail in note 6.

10. Pension schemes

The Company operates several defined benefit schemes and a defined contribution scheme for employees in the UK.

UK Pension schemes

(a) Defined contribution scheme

The Company operates a defined contribution scheme in the UK. Employer's contributions are charged to the profit and loss account as incurred. The total pension cost for the Company in respect of this scheme for the year ended 31 March 2006 was **£0.1m** (2005: £nil).

(b) Defined benefit schemes

The UK defined benefit schemes are funded by contributions from members as defined in the scheme rules, and by the employing company at a rate assessed by the scheme actuary as sufficient to meet the balance of costs determined following the triennial fund reviews. The assets of the schemes are held separately from Company assets under Trust. The charge to operating profit in the year was **£0.3m** (2005: £0.3m).

The FRS 17 'Retirement Benefits' valuations have been updated by the scheme actuaries, in order to assess the liabilities of the schemes at 31 March 2006. Scheme assets are stated at their market value at 31 March 2006.

The financial assumptions used to calculate scheme liabilities under FRS 17 for the UK defined benefit schemes are as follows:

	2006	2005	2004
Discount rate	**5.0%**	5.4%	5.5%
Salary increases per annum	**3.8%**	3.5%	3.5%
Price inflation per annum	**3.0%**	2.8%	2.8%
Increases to pensions in payment	**3.0%**	2.8%–3.0%	2.8%–3.0%
Increases to deferred pensions	**3.0%**	2.8%	2.8%

The market value of assets in the schemes at the Balance Sheet date, and the expected rates of return and the present value of the scheme liabilities at each balance sheet date are as follows:

	At 31 March 2006		At 31 March 2005		At 31 March 2004	
	Expected rate of return	**Market value £m**	Expected rate of return	Market value £m	Expected rate of return	Market value £m
Equities	**7.8%**	**21.6**	8.0%	18.8	8.0%	20.6
Bonds	**5.0%**	**26.3**	4.8%–5.5%	22.9	4.5%–5.5%	21.0
Other	**3.5%–4.4%**	**–**	4.5%	–	4.0%–7.0%	0.9
Total market value of assets		**47.9**		41.7		42.5
Present value of scheme liabilities		**(76.9)**		(64.5)		(63.3)
Net deficit in the schemes		**(29.0)**		(22.8)		(20.8)

A deferred tax asset of **£8.7m** (2005: £6.8m) has not been recognised because of the current loss making position of the Company.

The following amounts have been recognised in the profit and loss account and statement of total recognised gains and losses for the year ended 31 March 2006 in respect of the Company's defined benefit schemes:

	2006 £m	2005 £m
Profit and loss account		
– current service cost	**(0.3)**	(0.3)
Total charge to operating profit	**(0.3)**	(0.3)
Other finance costs		
– expected return on pension scheme	**2.6**	2.4
– interest on pension scheme liabilities	**(3.4)**	(3.0)
Net finance cost	**(0.8)**	(0.6)

Notes on the Accounts

10. Pension schemes continued

	2006 £m	2005 £m
Statement of total recognised gains and losses		
Actual return less expected return on scheme assets	**4.4**	1.9
Experience losses arising on scheme liabilities	**1.0**	(2.8)
Changes in assumptions underlying the present value of scheme liabilities	**(12.5)**	(4.7)
Net actuarial loss recognised in the statement of total recognised gains and losses	**(7.1)**	(5.6)
Movement in deficit before deferred tax during the year		
Net deficit in schemes at beginning of year	**(22.8)**	(20.8)
Movement in year:		
– current service cost	**(0.3)**	(0.3)
– contributions	**2.0**	2.4
– net finance cost	**(0.8)**	(0.6)
– actuarial loss	**(7.1)**	(3.5)
Net deficit in schemes at end of year	**(29.0)**	(22.8)

	2006	2005	2004	2003
Details of experience (gains) and losses				
Difference between the expected and actual return on scheme assets:				
– Amount (£m)	**4.4**	1.9	3.1	(7.6)
– Percentage of scheme assets	**9.2%**	4.6%	7.3%	(18.1%)
Experience losses on scheme liabilities:				
– Amount (£m)	**1.0**	(2.8)	2.2	(1.1)
– Percentage of scheme liabilities	**1.3%**	(4.3%)	3.5%	(1.6%)
Total amount recognised in statement of total recognised gains and losses:				
– Amount (£m)	**(7.1)**	(5.6)	2.4	(14.1)
– Percentage of scheme liabilities	**(9.2%)**	(8.7%)	3.8%	(20.6%)

11. Employee benefit expense

	2006 £m	2005 £m
Wages and salaries	**0.5**	0.6
Social security costs	**0.1**	0.1
Share options granted to directors and employees	**0.1**	0.1
Pension costs – defined contribution plans	**0.1**	0.1
Pension costs – defined benefit plans	**0.3**	0.3
	1.1	1.2
Reorganisation and termination costs	**0.4**	–
	1.5	1.2

	2006	2005
Average employee numbers	**12**	14

12. Contingent liabilities

Bank borrowings are secured via a cross guarantee between the Company and its subsidiaries on specific land and buildings, plant and equipment and inventory and receivables. The available borrowing facility for committed long-term debt reduced by £2.5m in March 2006 to £25m and this facility was extended to a new expiry date of 30 September 2007.

The Group also has in place a cross guarantee between the parent company and its UK subsidiaries in respect of bank loans and other financial obligations which amounted at 31 March 2006 to £3.0m.

Scapa Group plc
Registered Office:
Manchester Road, Ashton-under-Lyne,
Greater Manchester OL7 0ED
Tel: +44 (0)161 301 7400
Fax: +44 (0)161 301 7591
Registered in England number 826179

www.scapa.com