8 June 2006

Scapa Group plc
Preliminary Results

Scapa Group plc, a global supplier of technical tapes and cable compounds, today announced its preliminary results for the 12 months ended 31 March 2006.

Highlights

- Trading Profit* of £5.5m - £2.2m up on last year's poor result including currency benefit of £0.9m
- Cash inflow of £2.8m after £5.7m receipt from Waycross deposit - ongoing legacy costs of £4.4m for asbestos litigation and pensions top-up
- Strategic review completed - future focus on speciality tapes business
- Proposed sale of the Megolon compounding business for £16.75m, subject to normal due diligence and shareholder approval
- Substantial cost reduction programme with cost of £2.8m in year and anticipated annual savings of £2.6m. Further stage now announced - additional cost £1.0m with expected annual savings of £1.2m in a full year

Commenting on the results, Chairman Dr Keith Hopkins said:

"The welcome improvement in trading performance reflects the changes made to the management team during the year, with specific actions on selling price recovery, reduction of low margin business and cost savings.

"It is also pleasing to see major progress against our recently completed strategic review with the proposed sale of our Megolon business and a further substantial cost reduction programme. Much remains to be done, however, to restore performance to an acceptable level."

For further information:

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

** Figures shown here and elsewhere as 'trading profit' in the Preliminary Announcement relate to operating profit before exceptional costs of £3.4m (2004/05 £0.9m) and goodwill/asset impairments of £13.7m (2004/05 £3.6m).*

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 AGM.

Finance

Strict cash management has remained a key objective throughout the year. Substantial cash legacy 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 AGM 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.

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.

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 re-structured. 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 lead 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 paper mill 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 paper mill 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 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 primarily 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 10.6 pence (2004/05 profit of 1.5 pence 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 website.

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. 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.

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

Consolidated Income Statement
For the year ended 31 March 2006

All on continuing operations	note	Year ended 31 March 2006 £m	Year ended 31 March 2005 (restated) £m
Turnover	2	**191.5**	188.2
Operating loss	2	**(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	4,5	**(13.7)**	(3.6)
Operating loss		**(11.6)**	(1.2)
Interest payable		**(1.3)**	(1.3)
Interest receivable		**0.3**	0.6
		(1.0)	(0.7)
Discount on provisions		**(0.5)**	(0.5)
IAS 19 finance costs		**(1.4)**	(1.2)
Net finance costs		**(2.9)**	(2.4)
Loss on ordinary activities before taxation		**(14.5)**	(3.6)
Taxation		**(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		**(15.3)**	2.1
Weighted average number of shares		**144.8**	144.8
(Loss)/earnings per share (p)		**(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		**2.3**	1.3
Actuarial losses		**(19.3)**	(7.3)
Total recognised expense for the period	6	**(32.3)**	(3.9)
IFRS transition adjustment (IAS 32 and IAS 39)		**0.2**	-
Total recognised expense		**(32.1)**	(3.9)

* Operating profit before exceptional costs and impairments

Consolidated Balance Sheet
As at 31 March 2006

	note	**31 March 2006** £m	31 March 2005 (restated) £m
Assets			
Non-current assets			
Goodwill	*5*	**11.2**	21.0
Property, plant and equipment	*5*	**46.9**	52.3
Deferred tax asset		**9.4**	8.4
Other non-current assets		**-**	0.1
		67.5	81.8
Current assets			
Inventory		**21.6**	19.3
Trade and other receivables		**46.5**	43.6
Tax assets		**-**	0.4
Financial assets - derivative financial instruments		**0.2**	-
Current asset investments		**5.7**	10.7
Cash and cash equivalents		**3.4**	8.1
		77.4	82.1
Liabilities			
Current liabilities			
Financial liabilities:			
- Borrowings and other financial liabilities		**(3.0)**	(3.1)
- Derivative financial instruments		**(0.1)**	-
Trade and other payables		**(33.6)**	(32.7)
Tax liabilities		**(0.6)**	-
Provisions		**(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		**(13.6)**	(20.2)
Other non-current liabilities		**(2.1)**	(2.0)
Deferred tax liabilities		**(5.0)**	(4.9)
Other tax liabilities		**(2.7)**	(3.0)
Retirement benefit obligations		**(63.4)**	(45.6)
Provisions		**(9.9)**	(10.1)
		(96.7)	(85.8)
Net assets		**8.2**	40.2
Shareholders' equity			
Ordinary shares		**7.2**	7.2
Retained earnings		**(2.6)**	31.7
Translation reserve		**3.6**	1.3
Total shareholders' equity	*6*	**8.2**	40.2

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	*7*	**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)
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		**5.7**	-
Net (payments)/receipts in respect of forward contracts		**(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		**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		**0.9**	5.7

Notes on the Accounts

1. Basis of Preparation

The consolidated financial statements of Scapa Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as 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.

2. Segmental reporting

Primary Reporting Format - Geographical Segments

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

Segment results

The segment results for the year ended 31 March 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

2. Segmental reporting (Cont'd)

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

	Europe £m	N America £m	Asia £m	Corporate £m	Group £m
Depreciation	(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)

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**
Minority interests						0.1
Retained profit for the period						**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)

3. 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.

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 5.

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.

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 5.

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. 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 under-performance 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.

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 future 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.

6. Reserves

	Share capital £m	Translation reserve £m	Retained earnings £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 expense 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).

7. 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)

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

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 in the period				
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 in the period		2.0		(1.5)
Net debt at start of year		(15.2)		(13.7)
Net debt at end of year		(13.2)		(15.2)