SCAPA GROUP PLC ANNUAL REPORT AND ACCOUNTS 2018

CHALLENGE

ACCEPTED

Scapa Group is a leading global manufacturer of bonding products and adhesive components for applications in the Healthcare and Industrial markets.

CHALLENGE

We strive to continuously create value for all our stakeholders, including shareholders, customers, employees and our communities. We recognise that there are many challenges, internal and external, that we must overcome to achieve our goals. We believe this is attainable if we continue to follow The Scapa Way and our Ten Guiding Principles. We accept the challenges that lie ahead.

ACCEPTED

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Chairman's Letter

"My first full year as Chairman has seen continued progress ... I remain confident of Scapa's ability to deliver increased returns to our shareholders."

Larry Pentz

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Chief Executive's Strategic Review

"The year has been successful both financially and strategically. We continue to improve on our record performance in both Healthcare and Industrial."

Heejae Chae

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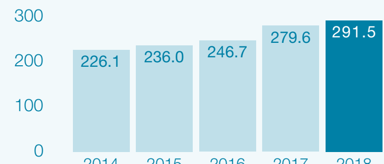
Visit our websites:
www.scapa.com
www.scapahealthcare.com
www.scapaindustrial.com

Financial Highlights

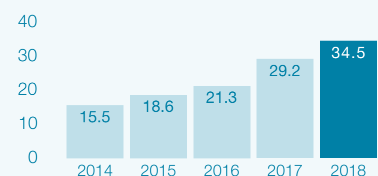
Group revenue
£291.5m

2017: £279.6m



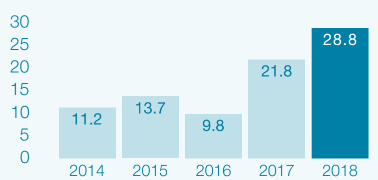
Trading profit*
£34.5m

2017: £29.2m



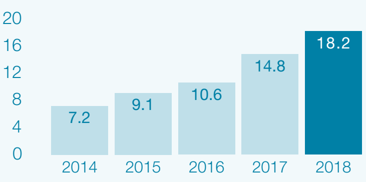
Profit before tax
£28.8m

2017: £21.8m



Adjusted earnings per share**
18.2p

2017: 14.8p



- Revenue, trading profit and trading margin increased for the eighth consecutive year with improvements in both Healthcare and Industrial
- Revenue increased 4.3% to £291.5m after the benefits of the Markel acquisition, the full year impact of EuroMed and some currency tailwinds
- Trading profit increased 18.2% to £34.5m with both business units contributing
- Both business units saw increases in trading margins, with Industrial showing significant improvement, as overall margins reached 11.8%
- Profit before tax increased 32.1%
- Dividend increased by 20% to 2.4p from 2.0p, reflecting the 23% increase in Adjusted EPS and ongoing confidence in the business
- Net debt £3.8m (2017: £16.1m)

Healthcare

- Technology transfers signed with global Advanced Wound Care and Consumer Wellness companies
- Acquired BioMed Laboratories LLC adding capabilities beyond adhesives
- New ultra-flexible silicone gel and low trauma hydrocolloid technologies launched
- Introduced new hydrogel product for advanced wounds and burns
- Positive outlook for FY19 with good sales pipeline
- Broke ground on a new built-for-purpose healthcare manufacturing facility in Knoxville, Tennessee

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REVENUE

£112.8m

(2017: £108.7m)

TRADING PROFIT MARGIN

15.4%

(2017: 15.3%)

TRADING PROFIT***

£17.4m

(2017: £16.6m)

Industrial

- Improved trading margins by over 20% to 12.6% as we continue to improve margins to industry average of mid-teens
- Korean closure and China sales office consolidation well executed with expected profit improvement of approximately £1m p.a.
- Acquired Markel Industries resulting in improved ROCE through increased site and equipment utilisation while generating top line revenue growth
- Good progress on reshaping our cost to serve our customer base in specific regions
- Continued top line growth in key segments of Cable and Construction with further margin improvements in Automotive
- Completed sale of Swiss property for £13.3m

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REVENUE

£178.7m

(2017: £170.9m)

TRADING PROFIT MARGIN

12.6%

(2017: 10.4%)

TRADING PROFIT***

£22.5m

(2017: £17.8m)

* Profit before tax, before net finance costs, amortisation of intangible assets, exceptional items and pension administration costs

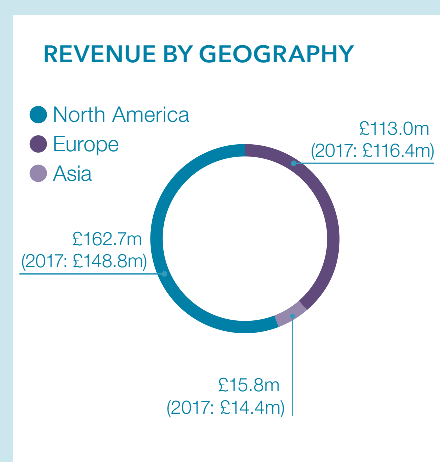
** Adjusted earnings per share is calculated by dividing the trading profit less cash interest less tax on operating activities by the weighted average number of ordinary shares in issue during the year

*** Trading profit for the Group is £34.5m after charging £5.4m of corporate costs

N.B. Alternative performance measure definitions can be found on page 29

Our Business at a Glance

Scapa is organised into two business units serving the Healthcare and Industrial markets, primarily in Europe and North America. Each business unit has a strategy specific to its market situation. Healthcare continues to build its relationships with key market leading customers as the turn-key partner of choice, as they leverage our know-how in manufacturing processes and materials, in a market with favourable demographic and outsourcing trends. Industrial has further opportunities to drive improved margins through consolidation and efficiency, and is also focused on growth in selected areas where we have a competitive advantage.



Healthcare

WHAT WE DO

Scapa Healthcare is a global strategic outsource partner of skin friendly turn-key solutions for the Advanced Wound Care, Consumer Wellness and Medical Device markets. We partner with market leaders to develop and manufacture innovative skin friendly medical supplies and devices. Our global footprint allows us to offer a full range of services that support customers around the world.

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REVENUE

£112.8m

TRADING PROFIT

£17.4m

Industrial

WHAT WE DO

Scapa Industrial manufactures an extensive portfolio of adhesive bonding solutions in our key sectors of Cable, Automotive, Construction and Specialty products. We partner with leading companies with multiple and established paths to our select markets. We service our partners with our broad product portfolio, which accelerates our position as a leading provider of global solutions.

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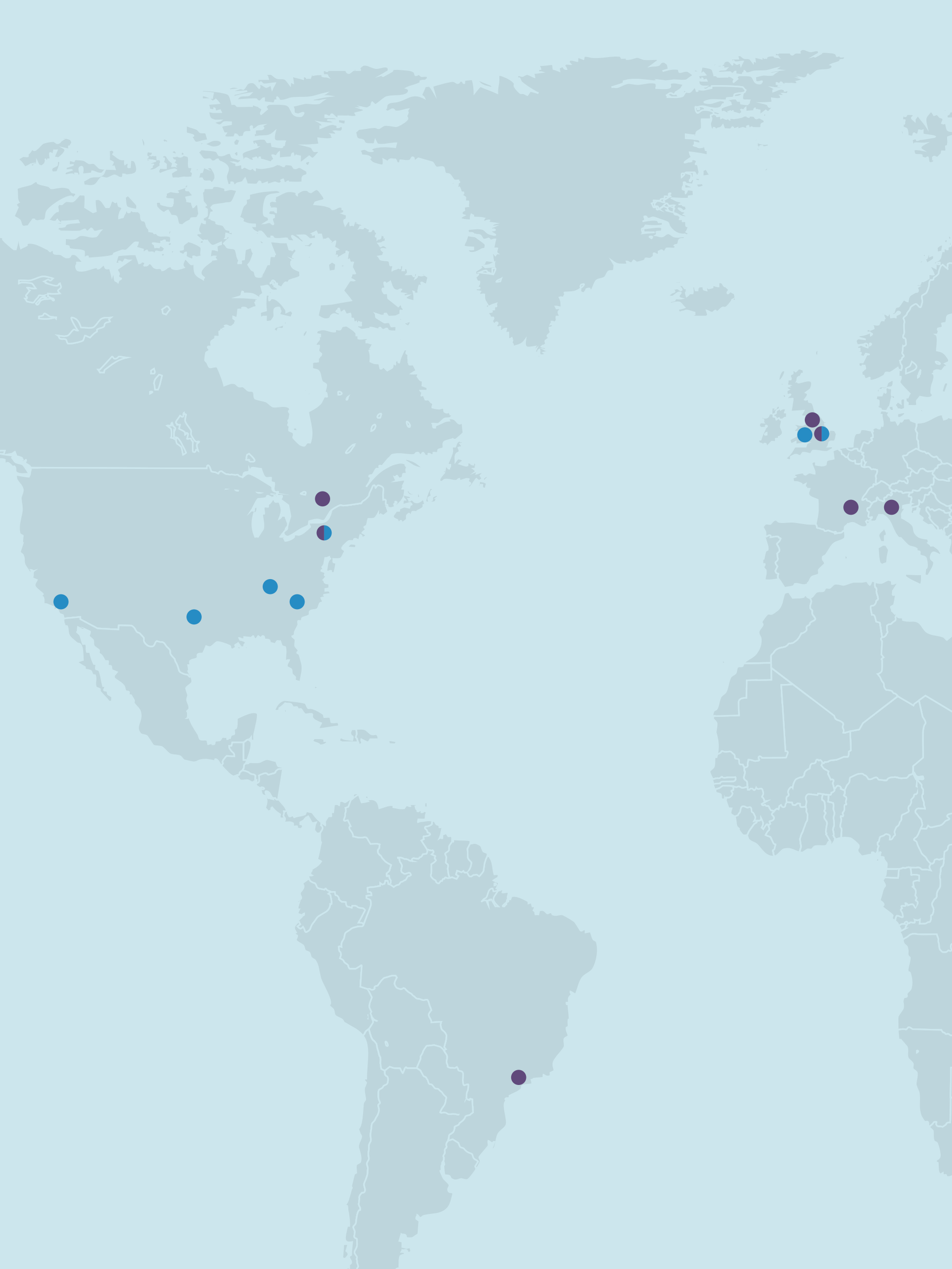
REVENUE

£178.7m

TRADING PROFIT

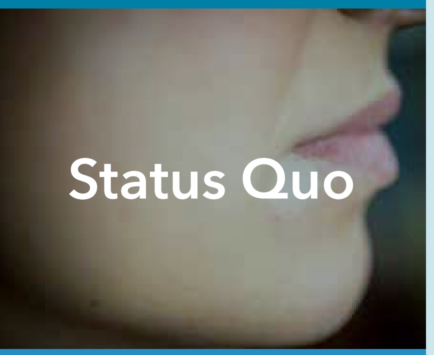
£22.5m



OUR GLOBAL LOCATIONS

- **Scapa Americas**
  Brazil – São Paulo
  Canada – Renfrew
  USA – Dallas, Inglewood, Knoxville, Liverpool, Orangeburg, Windsor
- **Scapa Europe**
  France – Valence
  Italy – Ghislarengo
  UK – Dunstable, Manchester, Luton, Ramsbury
- **Scapa Asia**
  China – Shanghai
  India – Chennai
  Malaysia – Shah Alam

CHALLENGE



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INDUSTRIAL Turn to page 24

SUSTAINABILITY Turn to page 32

ACCEPTED

Chairman's Letter

"There is still much to do to achieve the full potential of the business, and I remain confident of the Group's ability to continue to deliver."

LARRY PENTZ
Chairman

DEAR SHAREHOLDER

My first full year as Chairman has seen continued progress for Scapa, with good performance in both business units. Healthcare continues to challenge the status quo of the healthcare markets we serve by expanding our position as the turn-key partner of choice to our market leading global customers. The acquisition of BioMed Laboratories LLC ('BioMed') expanded our capability beyond the adhesive value chain into formulations of liquids, powders and gels. As our customers review the strategic rationale of their integrated structure, our position is to provide an alternative to their strategy. Industrial is overcoming the internal challenges, which has resulted in its margin expanding from loss-making towards mid-teens. Through our self-help journey, we have developed significant competence in operational excellence to optimise the return on assets. We recognise that the pressure sensitive materials market in which Industrial competes is extremely fragmented and inefficient. We want to challenge the dynamics of sufficiency in the market. We made our first Industrial business unit acquisition in Markel Industries ('Markel') which provides our first opportunity to validate our self-help strategy externally. Whilst we are faced with many challenges, there is still much to do to achieve the full potential of the business, and I remain confident of the Group's ability to continue to deliver.

GREAT PROGRESS AND POTENTIAL

The healthcare sectors in which we participate are undergoing significant change. The status quo of the integrated model of our healthcare customers is being challenged by the changing market dynamics. We are seeing increasing evidence of our customers in wound care, consumer and medical devices evaluating their strategy and operating models. In the near term, we have benefited from their need to outsource products to reduce their costs and accelerate time to market. We have built a healthy project pipeline that should continue to support our organic growth. Furthermore, we are seeing our involvement moving further up in the product lifecycle including development and innovation. Today, 80% of our pipeline is turn-key solution with Scapa's proprietary technology or manufacturing

know-how. The latest opportunity that we are participating in is what we have termed 'technology transfers'. Our customers are beginning to outsource not just manufacturing volume but also their assets and technology for Scapa to subsume. During the year, we have signed two technology transfers, one with a wound care company and the other with a global consumer product company. As part of the technology transfer, we have also entered into an innovation agreement to develop the next generation of product range which ensures that we can continue to drive product pipeline and innovation. We expect the revenue from the two transfers will benefit the second half of fiscal year 2019.

We continue to invest in the Healthcare business to further strengthen our strategic partnership with customers such as Johnson & Johnson and Convatec by broadening our capabilities. During the year, we acquired BioMed which expanded our expertise beyond the adhesive value chain into formulations of liquids, powders and gels. The products are complementary to Scapa's existing wound care and ostomy management portfolio and will expand our OTC and health and beauty ranges within the Consumer Wellness segment. We have also started construction of a new facility in Knoxville, Tennessee, which will allow us to consolidate our current business there onto one site as well as provide significant additional capacity for expansion.

Industrial continues to deliver on the self-help agenda as it improves margin performance and return on capital employed. Last year we outlined our target to achieve 15% margins and over the medium-term return to a GDP+ level of revenue growth – this goal remains realistic. During the year we exited our Korean factory and rationalised our Asian cost base. We believe that the investment required would outweigh the scale and relative opportunity of our Asian business.

As we continue to optimise our portfolio, we are confident that we will begin to drive growth in Industrial. We will focus on niche markets with competitive advantage such as Cable and India. Strategically, we also see an opportunity to leverage the operational excellence capabilities that we have gained in our self-help journey. There are many companies that can benefit from our drive to efficiency and asset utilisation.

During the year, we acquired Markel, a manufacturer of adhesive floor mats, based in the US. Beyond the complementary product range, there are significant operational synergies as we consolidate its operations into Scapa's footprint which will deliver savings in FY19. We believe that there are other similar opportunities in the market where we can apply the skills that we have built over the course of our journey.

PERFORMANCE AND DIVIDEND

I am pleased to report that 2017/18 was another strong year for Scapa, with improvements in sales, trading profits and margins. Group revenue increased 4.3% to £291.5m (2017: £279.6m) and trading profit increased 18.2% to £34.5m (2017: £29.2m). On a constant currency basis, revenue and trading profit grew 3.1% and 17.3% respectively, with the currency gains seen in H1 offset by headwinds in H2. Group trading profit margins increased to 11.8% from 10.4%. Profit before tax increased by 32.1% to £28.8m (2017: £21.8m). Adjusted earnings per share increased 23.0% to 18.2p (2017: 14.8p) and basic earnings per share was 15.4p (2017: 11.6p).

This year has seen a further strengthening of the Balance Sheet, including continued actions to manage the legacy pension scheme deficit. The Group ended the year with net debt of £3.8m (2017: £16.1m), after the acquisition of Markel in August 2017 for US$10.2m (£7.6m) and BioMed in March 2018 for an initial cash consideration of US$18.6m (£13.3m), which were offset by the sale of our property in Rorschach, Switzerland in July 2017 for £13.3m. The business continues to focus on cash flow and working capital management. The Group refinanced its revolving credit facility in October 2017, with a new committed £70m facility with £30m accordion, on improved terms.

Given the continuing progress and improved performance, the Board is proposing to increase the final and full year dividend by 20% to 2.4p (2017: 2.0p). Subject to the approval of shareholders at the forthcoming Annual General Meeting the dividend will be paid on 17 August 2018 to shareholders on the register on 20 July 2018. The ex-dividend date is 19 July 2018.

GOVERNANCE AND THE BOARD

As the Group continues to grow both organically and through acquisition, the Board recognises that a strong governance framework and good internal controls, supported by common values and culture, are critically important. The Board added two new Non-Executive Directors during the year, Pierre Guyot, former CEO of Mölnlycke Health Care AB, and Brendan McAtamney, CEO of UDG Healthcare plc, who both bring extensive experience of the healthcare market to Scapa, in addition to their broad business experience.

Richard Perry will retire at the AGM after 13 years' service, and I would like to thank him for his contribution to Scapa's journey.

The Board remains focused on ensuring its own effectiveness and that of the governance processes throughout the Group. An internal review of Board effectiveness was conducted in 2018. The corporate governance section on pages 37 to 68 outlines our full compliance with the UK Corporate Governance Code.

PEOPLE

Since becoming Chairman, I have visited many of our sites and had the opportunity to meet people across the organisation. It is evident that Scapa's recent success is a result of the skill and dedication of our employees who have accepted the challenge to make the business better. On behalf of the Board, I would like to thank all the employees for their hard work and dedication.

On 10 April 2018, we unfortunately experienced a fatality at our Dunstable site, which has profoundly shocked and saddened us. We are assisting the Health & Safety Executive (HSE) to fully investigate the incident. As a Board, the health, safety and welfare of our people are paramount and we are fully committed to resolving this issue and striving to make sure it never happens again.

OUTLOOK

2017/18 was another year of good progress for Scapa. We remain focused on delivering our targets for Healthcare and Industrial. We believe that both businesses are well placed strategically to address the challenges that face the markets we serve. Healthcare will challenge the status quo of our customers as they shift their strategy and operating model. Industrial will challenge the expectations of our customers and market based on sufficiency. I remain confident of Scapa's ability to deliver increased returns to our shareholders.

L C PENTZ
Chairman
22 May 2018

Chief Executive's Strategic Review

"We are confident about the future of the business and accept the challenges that lie ahead."

HEEJAE CHAE
Group Chief Executive

OVERVIEW

The year has been successful both financially and strategically. We continue to improve on our record performance in both Healthcare and Industrial. Group trading profit grew 18.2% and margins increased again to 11.8%. We completed two acquisitions that further validate our strategy to take the Group beyond the current opportunities and potentials. The acquisition of Markel Industries ('Markel') was our first acquisition within the Industrial business unit. Markel allows us to apply the operational excellence capabilities, that we accumulated through our self-help journey, externally to the fragmented and inefficient pressure sensitive materials market. The Healthcare acquisition of BioMed Laboratories LLC ('BioMed') is equally significant as it is our first acquisition beyond the adhesive value chain into formulations of liquids, powders and gels. The opportunities in healthcare are leveraging our portfolio of leading global healthcare companies such as Johnson & Johnson and Convatec to gain a greater share of their available spend. We have also signed two technology transfers where we are subsuming our customers' assets and technologies. The technology transfers are tangible evidence that the integrated operational model of our Healthcare customers are in transition. We believe that the dislocation of the traditional model provides Scapa with significant opportunities. We recognise that whilst the potential for both businesses is significant, we need to overcome equally significant challenges.

The healthcare industry, including the sectors we serve, is going through a significant structural change. Every part of healthcare is under tremendous pressure to do more with less. As the population grows and funding reduces, the healthcare sector is looking for new ways of doing business. We recognised that trend six years ago and decided to focus on outsourcing which has served us well. Equally we recognised the importance of incorporating proprietary technology and know-how into our products, and built a healthy project pipeline that is 80% turn-key with Scapa technology and manufacturing know-how. We are now seeing further evolution of our customers' strategy – evaluating their

integrated model and defining their core competence. Based on our position as the trusted strategic partner of choice, we are offering a solution that is gaining acceptance and consideration.

During the year, we have signed two technology transfers; one with a wound care company and the other with a global consumer product company. In each case, we are subsuming our customers' assets and technology to become the exclusive provider of the products. As part of the technology transfer, we have also entered into an innovation agreement to develop the next generation of product ranges which ensures that we can continue to drive product pipeline and innovation along with a long-term supply agreement. We are in numerous discussions with other customers who are evaluating potential transactions. The strategic benefits of technology transfers to Scapa are numerous. Beyond the financial benefits that these arrangements offer, we become an integrated part of our customers' value chain; we participate at the earliest stage of product development with our technology; we acquire technologies and assets which are already commercialised; and we accelerate our evolution to a fully-fledged healthcare company.

We will continue to add to our platform to further strengthen our position as the strategic partner of choice. We continue to acquire capabilities that can service wider opportunities with our customers. The acquisition of BioMed, based in Dallas, Texas, expands our capabilities beyond the adhesive based value chain into formulations of liquids, powders and gels. BioMed will enable us to address the ostomy segment of our customers as well as the OTC and health and beauty aisles of our consumer product customers. We are also investing to reinforce our existing platform to drive efficiency and margin improvement. We have commenced construction of a purpose built facility in Knoxville, Tennessee to consolidate the three buildings that we have outgrown and to provide capacity for further growth. We are also investing in people as we bring on multiple projects which require validation and integration. Our main challenge in Healthcare is to overcome the status quo and conservatism of our customers.

Industrial's self-help strategy continues to deliver improvement in margin and return on capital employed. The trading profit increased 26.4% improving our margin to 12.6%, closer to the medium-term target of 15%. Equally, as we optimise our portfolio, we believe that we can return to growth in line with the market. We see opportunities in niche markets where we have competitive advantage. In India, we have established a growing business leveraging our automotive customers that are shifting their supply chain to India and are looking for localised suppliers. We are benefiting from the robust local economy driving the construction business. We have built a new facility in Chennai, India to support the business which has nearly doubled in the last year. We also saw close to double-digit growth in the Cable segment. We believe that the positive momentum will be maintained based on major infrastructure projects that are due to come on line. Verizon's upgrade of its fibre network to 5G in the US is expected to start in 2018. Also, two major projects in Europe are expected to start shortly with a completion target of 2022. Viking Link, connecting the UK to Denmark, will be the world's longest submarine power cable link at 460 miles. In addition, Germany's decision to phase out nuclear power by 2022 will necessitate construction of a renewable energy infrastructure running across the north to the south of the country. Scapa is well positioned with all the cable providers that will participate in these projects.

During the year, we completed our Industrial business unit's first acquisition, Markel Industries, a US manufacturer of adhesive floor mats. Beyond the complementary product range and channel synergy, it provides an opportunity to leverage our operational excellence skills outside our footprint. Our experience in consolidating volume across our facilities is applied to consolidate Markel production onto Scapa's footprint, generating significant operational synergy. The pressure sensitive materials market is highly fragmented and inefficient and we believe that there are similar opportunities that we can consider. The pressure sensitive market is also very mature and stagnant. Both customers and competitors have accepted the current situation as sufficient. We believe our challenge is to exceed expectation and deliver beyond what is deemed adequate.

The fatal incident that occurred at the Dunstable site in April 2018 has been deeply felt by the Board and employees throughout the organisation. We strive to deliver the highest standards of health, safety and welfare of our employees and this commitment remains a key priority of the Board.

OUR PERFORMANCE IN 2017/18

Good performance from both Healthcare and Industrial business units has helped Scapa to deliver record results once again in 2017/18. Group revenue increased 4.3% to £291.5m, or 3.1% on a constant currency basis.

Healthcare revenue increased 3.8% to £112.8m or 4.3% at constant currency. Sales performance was positive in H2 with constant currency growth of 6.8%. EuroMed, in its first full year under Scapa's ownership, performed strongly. We saw good growth in Medical Devices, helped by the US launch of next generation insulin delivery devices. Wound Care's performance reflected the industry's overall slower rate of growth. Consumer products, helped by the launch of a health and beauty product, was positive. The specific customer product issue that impacted revenues in H1 has been resolved and the run rate has returned to its normal level. The pipeline of opportunities, including technology transfers, continues to build. Our challenge is the rate of conversion into revenue. Our revenue stream is dependent on product launches that are at times inconsistent and on our customers' launch strategies and priorities.

Healthcare trading profits increased 4.8% to £17.4m, or 5.5% at constant currency, with margins improving to 15.4% for the year. In H2 we invested in additional resources in anticipation of technology transfers which will require project management and validation of products and assets. The investment will enable us to accelerate the onboarding of the technology transfers which will start during the second half of FY19. Longer term, we see opportunities to improve Healthcare margins further, through both growth and efficiency. We have commenced construction of a new factory in Knoxville, Tennessee. Production is expected to commence towards the end of this calendar year, and will bring significant cost benefits.

In March 2018, we completed the acquisition of BioMed which is Scapa's first acquisition outside the adhesives based value chain, and offers complementary products to our existing Wound Care and Consumer Healthcare products. Scapa's ability to invest in capital and systems will allow BioMed to exploit opportunities that may previously have been challenging for them as a small privately held company.

Chief Executive's Strategic Review
continued

STRATEGIC PROGRESS DURING THE YEAR

At the start of the last financial year we identified a series of key goals and priorities for the year:

	What we said we would do	What we have achieved
Healthcare	Continue delivering profitable growth organically and through acquisitions. We will continue to strengthen our value chain and deepen our strategic engagement with our global customers, and convert the increased project pipeline to revenue. Continue to shift further into turn-key solutions with Scapa's IP and innovation.	Revenue growth in the year was 3.8%, helped by 6.8% constant currency growth in H2. Scapa's value chain expanded into liquids, powders and gels through the acquisition of BioMed, which allows us to expand our offering to customers. Engagement with customers enhanced through completion of two technology transfers, in wound care and consumer products. Continued progress on project pipeline with 80% of the products with Scapa's technology and know-how.
Industrial	Further drive ROCE through optimisation of the asset base. We will continue to focus on efficiency improvement and cost control, and focus on key markets where we can gain market share. We will continue the path to industry average margins.	Savings from the Swiss closure continue to be delivered, and the land and buildings were sold for £13.3m, in excess of the original estimates. Korea factory closed and China footprint reduced, delivering cost savings of £1m pa as we focus on the core business. Certain assets are being moved to other sites where they will be better utilised. Acquired Markel, a manufacturer of adhesive floor mats, which is currently integrating into a nearby Scapa site, driving cost benefits. Margins increased in the year from 10.4% to 12.6%.
Acquisitions	Make further acquisitions to complement the current business or deliver a new strategic platform.	Two acquisitions completed in the year, one for each business unit. BioMed adds to the capabilities of Healthcare, broadening our offering beyond adhesives into liquids, powders and gels. This will enable us to address a greater portion of our customers' spend. Markel is the first acquisition for our Industrial business unit and builds on the operational excellence capabilities we have developed. We continue to evaluate larger more strategic opportunities.
Financial	Continue to improve the Group's pension and tax positions, and review the Company's banking facilities.	Pension position improved with deficit now at £21.0m. The Company is now in a joint working group with the Trustee as we look to move the UK scheme off the Balance Sheet over the medium-term. The tax rate showed another improvement, though this time helped by a one-off benefit from the change to US tax rates. The banking facility was renewed for five years – £70m with a £30m accordion – on improved terms.
Culture	Continue to focus on talent development and succession planning to ensure that we have the right people embedded with our core values to further drive the growth of the business.	We continue to focus on succession planning. 'The Scapa Way' and our Guiding Principles continue to be reinforced throughout the Group. The organisation has been strengthened with the addition of a Group President who has joined Scapa from ITW, and a VP of Global Operations for Healthcare who joined from Integer, a large medical device manufacturer.

Industrial revenue increased 4.6% to £178.7m, or 2.4% at constant currency. Cable continued to do well with close to double-digit growth driven by major project initiatives in the US and Europe. Consumer products were up, helped by a strong performance from our Indian business into the growing local DIY market. We saw a decline in Automotive despite a strong performance in Europe and the Rest of the World as we exited low margin North American business. Construction was affected by the poor weather in Q1 of this calendar year, which delayed building in continental Europe and parts of North America.

Industrial trading profits increased by 26.4% to £22.5m, 24.3% growth at constant currency, and trading margins were increased to 12.6% from 10.4%. The improvement in profit was driven by; full year benefit from the closure of Rorschach; improvement in cost to serve and efficiencies; and initial benefit from the Asian reorganisation. The margin increase was achieved despite an unfavourable impact from input costs, offsetting some of the benefit seen in the previous year. Markel made a small contribution to profit of £0.1m after incurring £0.5m of restructuring costs following the announcement that we are consolidating the two sites into an existing Scapa site. Industrial margins have further room for improvement, and will be helped by benefits from Markel and the Asian restructuring next year. The target of mid-teens margins in the medium-term continues to look realistic.

Group trading profit increased to £34.5m, a growth of 18.2% or 17.3% at constant exchange rates, and margins increased again to 11.8%. Currency was favourable in H1 resulting in a benefit of approximately £1m, but headwinds in H2 resulted in a small £0.2m reduction for the year. The business continued to generate strong cash flows and managed the Balance Sheet well. At the end of the year net debt was £3.8m, after payment for the two acquisitions and completion of the sale of the Swiss property.

2018/19 STRATEGIC GOALS AND PRIORITIES

In 2018/19 the challenge for the business is to continue to build on the success of recent years, whilst accelerating the pace of progress. The theme of this report is around how Scapa accepts this challenge. This will require considerable changes in the business which I have broken into three areas:

CHALLENGE THE STATUS QUO

In Healthcare, we see an opportunity as our customers re-evaluate what their core competence is, leading to a shift in the market towards outsourcing, and where Scapa is in the best position to capitalise. This will give further opportunities for technology transfers in addition to the more traditional organic growth and acquisitions. Healthcare expanded beyond the adhesives based value chain with the acquisition of BioMed, and will continue to identify other opportunities particularly where we can address other parts of our customers' portfolios and requirements. We will also continue to improve our Healthcare margin towards the stated medium-term target of 20%.

CHALLENGE SUFFICIENCY

Industrial has performed well in recent years with its strategy to improve margins and ROCE, and there is further efficiency to extract through that route. The acquisition of Markel provides an opportunity to deliver operational synergy leveraging our operational excellence capabilities. We will also focus on growth in niche areas where we feel we have a competitive advantage. We believe we can grow by exceeding our customers' expectations through improved market and customer knowledge and a differentiated delivery model. We will continue to improve our Industrial margin towards the 15% target.

CHALLENGE OURSELVES

As we continue to grow, we need to invest in the development of our employees. The Scapa Way, based on our Ten Guiding Principles, provides a great foundation. We will focus on the greater engagement of our people using the tools we have developed. We will continue to bring in external talent with aligned entrepreneurial mindsets to push us further in our journey. We will also focus on succession planning, leveraging the internal capabilities that we are developing.

OUTLOOK

We have accomplished many things during the year. We acquired two businesses that are both strategically significant to the Group. We signed two technology transfers that validate our Healthcare strategy. We continue to drive growth and margin improvement across both Healthcare and Industrial and there are considerable opportunities in both businesses. Likewise, we also face challenges that we need to overcome; status quo in Healthcare; sufficiency in Industrial; and ourselves to push forward to achieve our goals. We are confident about the future of the business and accept these challenges.

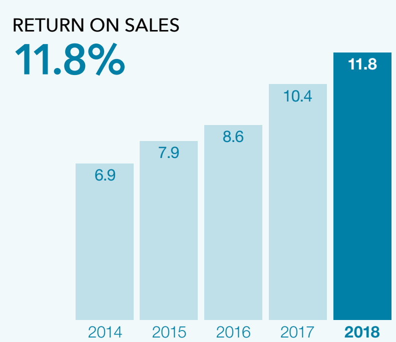
H R CHAE
Group Chief Executive
22 May 2018

Key Performance Indicators

Our Key Performance Indicators (KPIs), which include financial and non-financial measures enable the Board to monitor performance. They have been selected as being important to the success of the Group in delivering its strategic objectives.

RETURN ON SALES

11.8%



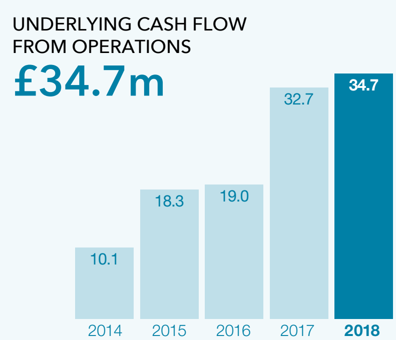
Definition Return on sales is trading profit as a percentage of revenue.

Commentary Return on sales is used to measure the underlying profitability of our operations and monitor the improvement against previous years.

Why we measure Assess whether growth is sustainable and profitable.

UNDERLYING CASH FLOW FROM OPERATIONS

£34.7m



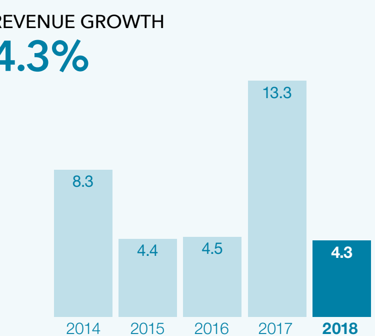
Definition Underlying cash flow is calculated using the cash from operations and adjusting for exceptional items.

Commentary Generating sufficient levels of cash to ensure that the Group is able to pursue its strategic goals. Underlying cash flow is an indicator of the Group's efficiency in generating cash from the trading profits of the business.

Why we measure Track the ongoing availability of cash for investment back into the Group and support quality of earnings.

REVENUE GROWTH

4.3%



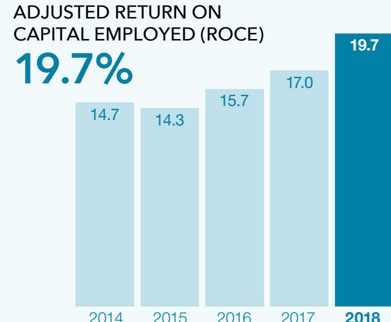
Definition Revenue growth measures the change in revenue achieved against prior year.

Commentary Revenue growth is monitored at both consistent and actual exchange rates (see also segmental reporting) as a measure of the growth of the Group. The metric used by the Group is actual exchange rates as shown above.

Why we measure Track the relative performance of our growth.

ADJUSTED RETURN ON CAPITAL EMPLOYED (ROCE)

19.7%



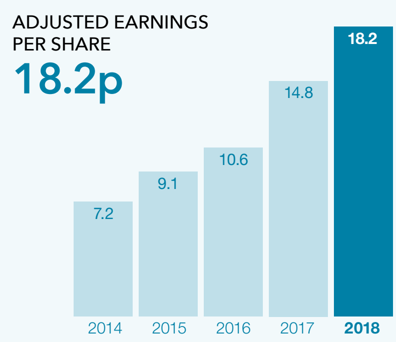
Definition Adjusted ROCE is defined as trading profit divided by the capital employed (equity plus long-term liabilities).

Commentary By delivering our strategy it is important to increase shareholder value. Adjusted ROCE is used together with the profit measures to monitor the efficient use of Group assets.

Why we measure Monitor value created from investments and focus on efficient use of our assets.

ADJUSTED EARNINGS PER SHARE

18.2p



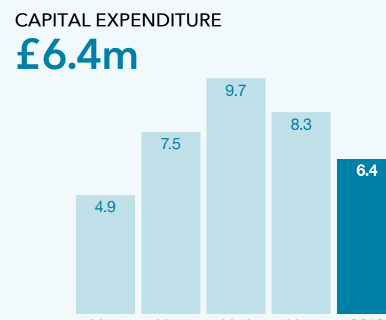
Definition Adjusted Earnings per share (EPS) is calculated by dividing the trading profit less cash interest less tax on operating activities by the weighted average number of ordinary shares in issue during the year.

Commentary By delivering our strategy we will create value and increase profits. Adjusted EPS is the measure used by the Board to assess the overall profitability of the Group.

Why we measure Track value generation for the Group's shareholders.

CAPITAL EXPENDITURE

£6.4m



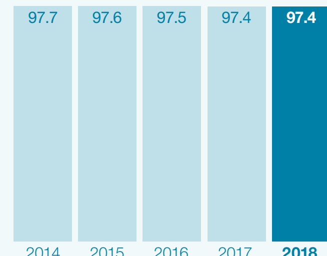
Definition Purchase of property, plant and equipment in the year, excluding acquisitions.

Commentary To enable the Group to continue to grow and improve customer satisfaction, Scapa invests in maintaining and improving our existing plants and facilities. Capital expenditure is an indicator of investment in production capacity and development. The increases in 2016 and 2017 relate to the move of the Swiss operations to France.

Why we measure Investment is vital to maintain our position and create future value.

CUSTOMER SATISFACTION PER ORDER

97.4%



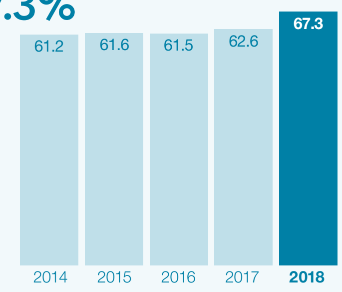
Definition Customer satisfaction measured by the percentage of the orders during the year that do not lead to a complaint.

Commentary The number of complaints is an indicator of customer satisfaction.

Why we measure Track the performance in customer relationships.

CAPACITY UTILISATION

67.3%



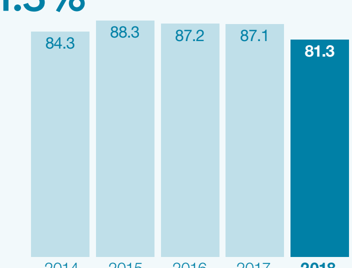
Definition Hours booked to production as a percentage of total possible, based on running 24 hours a day 5 days a week.

Commentary Managing capacity allows us to be responsive to customer needs by balancing cost efficiency and flexibility of production. We can simplify engagement with our customers by offering a balanced portfolio of available capacity across the globe.

Why we measure To ensure that a balance is struck between cost efficiency and flexible production.

SERVICE PERFORMANCE

81.3%



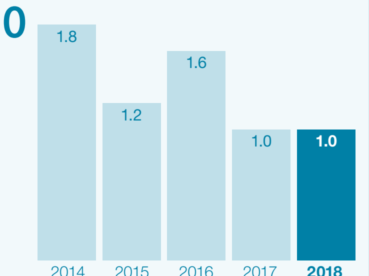
Definition Service performance and ease of engagement measured as the number of times the requested delivery date is met as a percentage of the total orders.

Commentary To build partnerships and ease engagement it is essential to meet customer needs and requests. Performance reduced in 2018 due to European Industrial sites which have high transaction volumes.

Why we measure Measure service provided to our channels/partners.

LOST TIME ACCIDENT FREQUENCY RATE (LTAFR)

1.0



Definition The number of lost time accidents which occurred in the year across all European and North American sites per 200,000 hours worked.

Commentary We maintain that zero accidents/incidents is the ultimate goal in Environmental, Health and Safety (EHS) excellence and we will continue to strive for this in both lost time accidents and lost days. As a manufacturing business a significant proportion of our employees work in production. This measure indicates the Group performance in reducing accidents and improving health and safety for our employees. 2018 maintains the good rate achieved in 2017. Since the year end, a fatal accident occurred at our Dunstable site. This reinforces the need to focus on Health and Safety at all times and we will continue to take all necessary steps to further improve performance.

Why we measure Protecting our people and acting responsibly is a must.

Risk Management

Our approach to Risk Management

Risk is an inherent part of our business and it is important for us to identify and understand the degree to which its impact and likelihood of occurrence will affect the delivery of our key objectives.

Scapa adopts both a Top Down and Bottom Up approach to risk to manage risk exposure across the Group to enable the effective pursuit of strategic objectives. In addition to ongoing risk identification, the Group's risk universe is reviewed on an annual basis. The approach is summarised in the table opposite, and below:

Top Down – through participation from the Executive Team, senior management and departmental experts (including Quality, Health & Safety, Supply Chain and Research & Development) and giving consideration to the Group's strategy, related objectives and any barriers and enablers to the achievement of these objectives.

Bottom Up – by engaging with our people, listening to their views and recognising their contribution. In addition, we have a robust and effective whistleblowing procedure to highlight issues such as potential wrongdoing or risks that are not being managed.

An integrated approach to risk management – the policies, procedures and monitoring systems that are in place – effectively manages the risks faced by our business.

TOP DOWN STRATEGIC RISK MANAGEMENT		BOTTOM UP OPERATIONAL RISK MANAGEMENT
Provision of guidance on the Group's approach and establishing parameters for decision-making Identification, review and management of identified Group strategic risks and associated actions Ongoing consideration of environmental risks Setting the risk appetite of the Group	Board and Audit and Risk Committee	Assessing the effectiveness of the risk management processes adopted across the Group Challenging the content of the strategic risk registers to facilitate the documentation of comprehensive and balanced assessment of risk Reporting on the principal risks and uncertainties of the Group
Directing delivery of the Group's identified actions associated with managing risk Identification and monitoring of the key risk indicators and taking timely action where appropriate	Executive and Leadership Teams	Responsible for reviewing the completeness and consistency of the operational risk registers across business units and the Group Challenging the appropriateness and adequacy of proposed action plans to mitigate risk Analysing and giving consideration to the aggregation of risk across the Group Provision of cross functional/ business unit resource to effectively mitigate risk where appropriate
Execution of the delivery of the Group's identified actions associated with managing risk Timely reporting on the implementation and progress of agreed action plans Provision of key risk indicator updates	Business Units	Identification and reporting of strategic risks to the Board Provision of reports and data relating to significant emerging risks to the Group (internal and external) Implementation of a risk management approach which promotes the ongoing identification, evaluation, prioritisation, mitigation and monitoring of operational risk Identification, evaluation, prioritisation, mitigation and monitoring of operational risks which are the responsibility of each subsidiary company Identification of strategic risks which are reported to the Group

RISK MANAGEMENT MODEL

The recording of risks is achieved through our risk management model (see below). The Group Board has overall responsibility for ensuring that Scapa has an effective risk management framework which is aligned to our objectives.

The Executive Team, Audit and Risk Committee and Board review risks which could affect the Group throughout the year. Risk and issue tracking systems are reviewed by our Group Risk & Assurance team on a regular basis, to ensure that the framework is in line with good practice in risk management and that agreed mitigation plans are being adhered to.

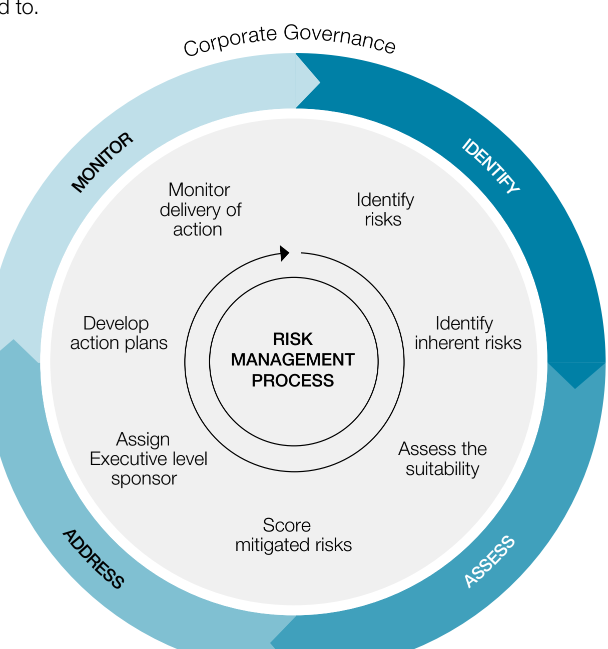
In determining the relative importance of risks in our business, we use a scoring mechanism to identify the likelihood of a risk crystallising and the impact this would have on the achievement of our strategic objectives, assuming that no controls are in place (inherent risk score).

The key areas of identifying, assessing, addressing and monitoring risks are explained in further detail as follows:

IDENTIFY

We identify risks through day-to-day working practices including horizon scanning for legislative changes, professional body alerts, strategic planning, operational reviews, accident and incident reporting, project governance procedures and independent systems audits.

In addition to ongoing risk identification, the Group's risk universe is reviewed on an annual basis. This exercise relies on risk intelligence being gathered through the Top Down, Bottom Up method detailed on the opposite page.



ASSESS

After identifying Scapa's inherent risk exposure, we assess the suitability and effectiveness of existing controls and mitigating factors to ascertain the Group's net exposure (mitigated risk score).

This process includes mapping the sources and reliability of assurances over the effectiveness of controls provided to the Executive Team, Audit and Risk Committee and Board.

ADDRESS

An assessment of whether additional actions are required to reduce our exposure to risk:

Treat – develop an action plan to implement additional controls, or provide additional assurance over the adequacy and effectiveness of existing controls

Transfer – use third party expertise to mitigate against risk

Tolerate – determine that the risk is within appetite, when compared with the cost and resources required to reduce the risk

Terminate – exit the activity

MONITOR

The process used by the Audit and Risk Committee to review the effectiveness of risk management includes the review of the Group's:

- risk profile to assess potential risk areas and progress against action plans
- internal and external audit plans to minimise duplication of assurance provision
- implementation of internal audit recommendations
- status of management actions associated with the issues

Risk Management
continued

INTERNAL CONTROL

The Group's approach to internal control is based on the 2013 COSO Internal Control – Integrated Framework. Internal control is a continuous process which is ingrained in our activities and operations. The aim of our internal control framework is to provide reasonable assurance to the Board over the following areas:

- the effectiveness and efficiency of operations
- the reliability of financial reporting
- compliance with relevant laws and regulations

Our internal control framework consists of the following key components:

Control environment – the 'tone from the top' and the foundation upon which all other components of the framework rest. We have captured the attributes, integrity, values and competencies that our employees display within our Code of Conduct.

Risk assessment – our awareness of the risks we face and the actions we take to address and mitigate the risks identified.

Control activities – the policies and procedures that help ensure that actions and directives required by management are carried out.

Information and communication – the ability for our employees to capture and exchange the information needed to conduct, manage and control our operations; employees' understanding of their own role in the internal control framework.

Monitoring activities – continuous review and improvement where necessary to allow the system to react dynamically and change as needed.

Site-based teams operate against mandated minimum control standards which are issued by the Group Finance Director. Annual assessments of compliance are completed by the site teams as part of a controls self-assessment process prior to internal audit visits. Each site team is subject to regular internal audit, where the extent of compliance with these standards and the accuracy of the controls self-assessment are examined.

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 that any new legislation is taken into account, including compliance with environmental legislation.

High standards and defined targets are set for environmental, health and safety performance.

RISK AND CONTROL REPORTING STRUCTURE

Our internal control structures are designed to provide assurance that the Group is on track in delivering against its strategic objectives.

We have a clear structure for ensuring that accurate and reliable information on the adequacy and effectiveness of internal controls is presented to the Executive Team, Audit and Risk Committee and Board.

Internally, we operate 'three lines of defence':

- **First line** – establish and embed policies and procedures
- **Second line** – direct and set policy at Group level to enforce consistency. Oversight functions sit at Group level
- **Third line** – independent challenge and assurance

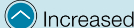
Principal Risks and Uncertainties

Strong Risk Management Systems support the Strategy for Growth

The following pages summarise the principal risks and uncertainties which the Group faces, together with relevant key controls and mitigating factors. The list does not constitute a list of all risks faced by the Group.

STRATEGIC RISKS AND DEFINITIONS

Risk	Impact	Mitigation	Risk Movement
ECONOMIC AND POLITICAL Political and economic uncertainty, e.g. Brexit, which affects market and financial stability	• Detrimental impact on business performance	• Regular risk assessment completed on macro-economic impact on key business areas, e.g. Supply Chain, Tax and People • Geographic diversity means the Group maintains a largely natural transactional currency hedge with main exposure being translation	No change
BUSINESS STRATEGY The Board develops the wrong business strategy or fails to implement its strategy effectively	• Negative impact on long-term growth prospects	• Clear strategy in place which is reviewed by the Board on a regular basis • Progress against the strategy is monitored by senior management and the Board on an ongoing basis • Risks related to strategy are reviewed regularly by the Audit and Risk Committee and Board	No change
ACQUISITIONS AND DISPOSALS Poor decision making on organisational restructuring	• Adversely affects the Group's results, weakening shareholder value	• Significant internal and external due diligence processes • Acquisitions and disposals approved by the Board • Monitoring of business portfolio and structure at senior management and Board level • Integration planning for acquisitions across Finance, Operations, HR and Commercial functions	No change



Principal Risks and Uncertainties
continued

FINANCIAL RISKS AND DEFINITIONS

Risk	Impact	Mitigation	Risk Movement
FINANCIAL AND TREASURY Unavailability and cost of funding, and foreign exchange	• The Company does not have access to sufficient funds to permit trading as a going concern	• Access to new committed facility of £70m providing sufficient headroom and capability • All treasury policies Board approved • Day-to-day currency exposure is largely naturally hedged. The Company may consider hedging instruments for specific transactions as they arise	
PENSIONS Liabilities increase due to increasing life expectancy, inflation and poor performance in investments compounded by fluctuations in the discount rate	• The pension liabilities and associated cash requirements have a material adverse impact on the Group's cash flows	• No final salary pension schemes are open in the Group • Active and ongoing liability management programme, including long-term funding agreements • All asset investments managed by professional fund managers • Asset portfolio is diverse and spreads risk and return across multiple investment types and across various global territories • Pensions risk assessment completed by independent experts	

MARKET RISKS AND DEFINITIONS

Risk	Impact	Mitigation	Risk Movement
CUSTOMERS Over-reliance on specific customers or markets	• Places pressures on pricing, margins and profitability	• Diverse range of customers, no specific weight towards one • Business strategy, including acquisitions and disposals, tailored to reduce reliance on cyclical markets and increase customer base • Winning new long-term Healthcare contracts helps spread risk and increase growth • Extensive up-front customer risk assessment and robust credit management systems employed	

Increased

No change

Decreased

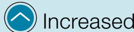
OPERATIONS RISKS AND DEFINITIONS

Risk	Impact	Mitigation	Risk Movement
RAW MATERIAL PRICING Excessively high raw material prices	• Reduced competitiveness as a result of reducing margins and profitability	• Global Supply Chain (GSC) in place with clear cost-reduction targets • Commodity prices are reviewed on a monthly basis by the GSC team • Contracts with suppliers are being renegotiated to further reduce our exposure to price changes • Certain contracts allow pass-through of commodity price changes • Dual sourcing – regional alternatives • Material substitution programme	
HUMAN RESOURCES Failure to attract and retain people with the right virtues and talents to sustain and grow our business	• Inability to achieve our business objectives of sustainable growth • Loss of skills, knowledge and experience	• Global performance management system in place at major sites • Performance-related incentive schemes in place across the business • Global Reward, Compensation and Benefits Manager to manage global reward and incentive linked to overall business strategy • Roll-out of talent and succession planning programme	
TECHNOLOGY ICT systems and infrastructure failure and/or interruption	• Significant disruption to direct manufacturing and support processes	• Business continuity and disaster recovery processes in place at major sites • Annual DR test for core systems • Remote back-up of electronic data • Fallover/standby solutions give additional core systems resilience • Security and segregation built into e-commerce system architecture to minimise exposure • Rigorous IT governance model • Ongoing review of Cyber Security, Data Protection Procedures, Policies and Assurance	

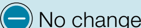
Principal Risks and Uncertainties
continued

REGULATORY AND COMPLIANCE RISKS AND DEFINITIONS

Risk	Impact	Mitigation	Risk Movement
PRODUCT QUALITY Products are not up to the required quality, health and safety standards	• Poor financial performance due to customer returns and product liability claims, ultimately affecting customer trust in Scapa as a supplier	• ISO 9001 in place at all key sites • The Healthcare sites: Dunstable, Inglewood, Knoxville, Ramsbury, Orangeburg and Windsor are accredited to ISO 13485 • Internal quality audit processes are in place with issue resolution tracking. In-process and final product quality checks are performed to ensure compliance • Customer quality requirements clearly identified with regular customer audits • Recall insurance placed for Healthcare and Automotive	
HEALTH AND SAFETY Failure to ensure safe working practices	• Significant injury or loss of life • Reputational damage associated with accidents and injuries resulting in customer disassociation with Scapa • Financial loss associated with lost working time and remediation	• Lost Time Accident Frequency Rate (LTAFR) of 1.0 (2017: 1.0) • Ongoing development of policies and training programmes • Safety management system development • Regular audits and work with external accredited agencies to ISO 14001 and 18001 globally • Actively using our risk mapping mechanisms to influence EHS capital expenditure to manage our risks	
ENVIRONMENT Failure to mitigate environmental impact	• Reputational damage • Financial loss associated with clean-up, fines and sanctions	• ISO 14001 in most sites, with a plan in place to certify the remaining significant sites • Conduct regular internal reviews of environmental aspects and impacts • Training provided to site management and employees • Enforcement and surveillance visits by third parties	



Increased



No change

Decreased

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, (commonly referred to as the longer-term viability statement) the Directors have assessed the prospect of the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for a period of three years, which was selected for the following reasons:

- The Group's strategy of long-term profitable growth is set over a rolling three-year period
- A review of the current and future customer contracts has been undertaken and it is reasonable to conclude that given appropriate management these will continue throughout the period
- Business risks are reviewed at least annually and the Group manages a risk-based assurance programme which is set over a three-year period. This is consulted on with the business units and the Board on a regular basis and the Group believes that this enables assurances to be obtained on the systems of internal control in those areas which have been identified as barriers to achieving its strategic objectives
- This has been further underpinned by the regular Board briefings provided by the Executive Directors as part of a robust reporting and business unit review framework. This process highlights business strategy risks and opportunities which are considered within the Board's risk appetite framework

PRINCIPAL RISKS

During 2017/18, the Board has continued to assess and monitor the principal risks of the business. This includes those risks (financial, operational and compliance) which would impact on the Group's strategy to achieve long-term profitable growth, taking account of global economic and political volatility (e.g. Brexit). The principal risks have been categorised into:

- Strategic
- Financial
- Market
- Operations
- Regulatory and compliance

The strategic risks that have been identified in the Annual Report and Accounts are specific to the Group and are a reflection of the importance that the Group places on its robust risk management programme, which is continually being reviewed.

More detail of the processes adopted are provided in the Risk Management section of the Strategic Report in the Annual Report and Accounts.

CURRENT POSITION AND PROSPECTS

The Directors confirm that they have a reasonable expectation, absent a major unforeseen event outside of the Group's control, that the Group will continue to operate and meet its liabilities, as they fall due for the next three years.

The Directors' assessment has been made with reference to the Group's current position, prospects and Balance Sheet strength, the Group's strategy and the Group's principal risks, and how these are managed, as detailed in the Strategic Report.

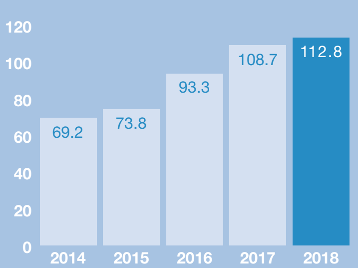
Business Review: Healthcare

"Our ability to innovate and quickly introduce products allows us to offer partners a sustainable competitive advantage in the marketplace."

REVENUE

£112.8m

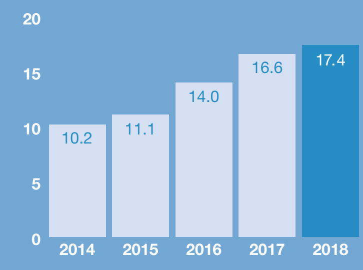
(2017: £108.7m)



TRADING PROFIT

£17.4m

(2017: £16.6m)



JOE DAVIN
President, Healthcare

"Scapa Healthcare has established itself as a trusted outsource partner by becoming our customers' de-facto product development and manufacturing arm."

Scapa Healthcare continues to lead as a trusted strategic outsource partner of choice, providing turn-key solutions into three target markets: Advanced Wound Care, Consumer Wellness and Medical Device.

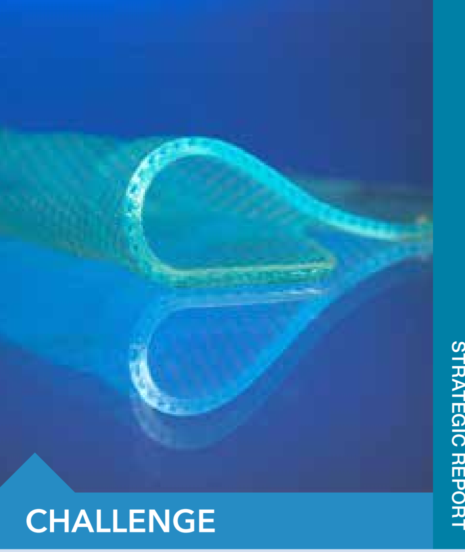
Through innovation, expertise and alignment of our core values, we support leading healthcare companies through their growth challenges by developing and manufacturing innovative skin friendly solutions. Our deep understanding of our customers and the healthcare markets we serve enabled us to deliver another successful year of profitable growth. We've continued to invest in the business and find innovative solutions to strengthen our position as our customers' preferred outsource partner.

MARKET TRENDS AND OVERVIEW

Global healthcare organisations and leading consumer brands continue to face pressure to deliver high quality products more efficiently. Traditionally, companies would invest heavily in differentiating technologies and manufacturing infrastructure while attempting to lower their cost of manufacturing. The healthcare environment and market demands for innovation have pressured healthcare organisations to focus more heavily on their core competencies and leverage a strategic outsource partner with scale and unique abilities. Responding to this market shift, Scapa Healthcare is well positioned as a trusted strategic outsource partner.

Globally, healthcare companies remain committed to strengthening their branding, marketing and distribution channels while utilising outsource partners as a more efficient means of innovating and manufacturing their products. Demand for strong outsource partners has grown significantly over the last decade as brand leaders seek to improve their supply chain efficiency, shorten development times and bring differentiating products to market faster. Outsource partners are not only tasked with delivering a complete turn-key product, but also with delivering innovation, design, development and regulatory expertise. Through collaboration, brand owners are able to enhance their competitive position in the marketplace.

The demand from leading brands for innovation to streamline their development process has increased substantially over the last few years. Scapa Healthcare's innovation strategy seeks to build a robust pipeline of research and development programmes, as well as new customer development projects. Through its strategic



CHALLENGE

Case study: Hydrogel skin interface for consumer pain device

A global consumer wellness company sought a solution for a reusable hydrogel skin interface for a consumer pain management device.

The challenge was to introduce a new use for hydrogel as a reusable interface between the user's skin and a device to anatomically challenging areas. We expedited design, development and delivery so our partner could launch a differentiated pain therapy device.

The project required the Ramsbury site to offer full turn-key capabilities including the installation of new pouching and cartoning equipment.

On-site research and development achieved the required performance characteristics to support the efficacy of the product. Leveraging our expertise in Knoxville, the Ramsbury site expanded its capabilities to offer the customer a complete turn-key product with the addition of a cartoning line, barcode labelling system, gel folding and in-line pouching.

The result was the delivery of an innovative product for a well-established global consumer brand focused on ecommerce and bricks and mortar retail channels throughout the US. The partnership continues to flourish and evolve as both teams work on upgrades and new programmes for future line extensions.

ACCEPTED

Business Review: Healthcare
continued

development and acquisition strategy, Scapa Healthcare has positioned itself for growth as an innovative partner to existing and emerging healthcare companies around the world. In addition to sales of products, Scapa receives a small percentage of its revenue through the sale of development services.

Building on last year's success, the 2016 acquisition of EuroMed continues to deliver strong profitable growth. Leveraging hydrocolloid technology, new product launches have enriched business opportunities with global advanced wound care, ostomy and consumer wellness customers. The development of new formulations met increased market demands for sensitive skin adhesives.

This year, Scapa made two acquisitions; BioMed Laboratories LLC ('BioMed') and Markel Industries ('Markel'). The acquisition of BioMed based in Dallas, Texas, was Scapa Healthcare's first adjacent platform. BioMed, a leading business-to-business developer and manufacturer of topical skin care solutions, expanded Scapa Healthcare's offering beyond adhesive-based solutions. Scapa can now offer customers complementary topical solutions such as tubed hydrogel, wound cleansers and moisturisers to pair with our skin friendly adhesive applications. Whilst Markel is primarily an Industrial acquisition, some sales are to Scapa Healthcare OEM customers.

Ongoing development work to meet market demands for sensitive skin applications led to the introduction of two new low trauma adhesive platforms. Scapa Soft-Pro® Low Trauma Hydrocolloid was introduced in February. The technology, with similar properties and applications as silicone gel, is considered a suitable adhesive alternative and safe for gamma sterilisation. The Scapa Soft-Pro® Silicone Gel range expanded with the introduction of a new ultra-flexible formulation. Both technologies allow us to better meet increased market demands for repositionable, sensitive skin applications safe for use on neonatal to geriatric users. We can now offer a more comprehensive range of adhesives for use in the advanced wound care and device fixation markets.

This year also saw the introduction of a market-ready line of absorbent, non-adherent hydrogel wound contact layers for advanced wounds and burns. Scapa Soft-Pro® Hydrogel Wound Contact Layer offering provides customers with a proven technology in a market-ready dressing. This format allows customers to quickly brand and introduce the product to market.

STRATEGY AND BUSINESS MODEL

Scapa Healthcare will continue to focus on being a strategic outsource partner of choice for current and future industry leaders in Advanced Wound Care, Consumer Wellness and Medical Device.

Our strategy is to become our customers' de-facto product development and manufacturing arm. We will remain a business-to-business partner that supports customers in design, development and manufacturing of new medical devices and products into the healthcare markets we serve. Our team of dedicated experts and full turn-key capabilities provide finished, packaged and sterile products which enable us to rapidly take a product from concept to market faster than many of our partners can do internally. Our ability to innovate and quickly introduce products allows us to offer partners a sustainable competitive advantage in the marketplace. This establishes long-term partnerships, supported by multi-year contracts that provide visible and secure streams of income for the business.

Our technology transfer strategy further strengthens our partnerships as we seek to acquire technologies or assets from customers to enable them to more efficiently focus on their core business. This strategy secures an exclusive agreement with customers with the intent of revitalising product lines through innovation and operational optimisation. Our strong manufacturing know-how of similar products allows us to efficiently manufacture and simplify their supply chain.

To enhance our plan, we will continue to establish a strong platform for growth with long-term contract renewals and increased strategic engagement with our customers. We actively aim to expand our technology and product portfolio, sales channels, manufacturing capabilities and capacity and quality systems to remain a value-add partner to our customers and increase our share of the customers' total spend. In order to do so, we must focus on the full supply chain and complete product processes from design and raw material selection, through converting and packaging, to sterilisation and logistics. We strive to be our customers' strategic outsource partner of choice.

Delivering high quality products is at the heart of everything we do; it is the foundation of trust with our customers. We have dedicated global healthcare quality teams at each site, and all product development and production processes are subject to rigorous quality control measures.

This year we have made significant investments in capacity and the organisation to deliver on our Healthcare growth strategy and house equipment acquired from technology transfers. In March, we broke ground on a new built-for-purpose medical manufacturing facility in Knoxville, Tennessee. The new facility will integrate the site's three existing buildings into a single site of operation and significantly increase capacity with a 152,000 square foot building. The new facility is set for completion in November 2018 with relocation of equipment commencing thereafter.

In order to deliver in the ever-changing healthcare market, we will continue to expand and strengthen our current capabilities and monitor any gaps in our value chain. We will invest through targeted acquisitions to support our growth strategy and deliver more value.

J DAVIN
President, Healthcare
22 May 2018

Our business model – how we create value

2017/18 PERFORMANCE

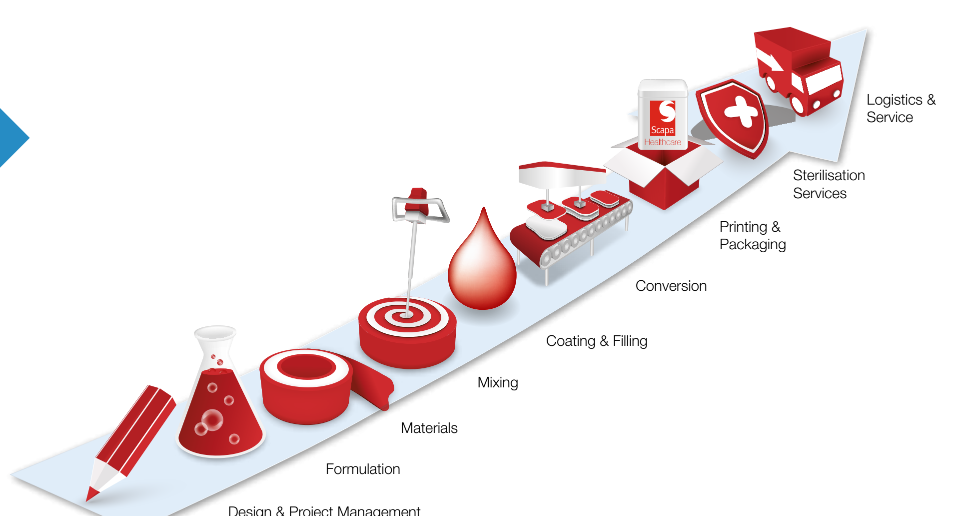
Scapa Healthcare made reasonable progress this year, increasing revenue by 3.8%, or 4.3% at constant exchange rates. We saw continued success in obtaining long-term contract renewals and structured programmes with customers. Margins increased to 15.4% and trading profit growth was 4.8%, or 5.5% at constant exchange rates. With good visibility of revenue and a strong pipeline of projects, we have continued to invest in innovation and design, setting ourselves up for future growth.

OUTLOOK

Our turn-key value proposition continues to resonate with customers. The year-end acquisition of BioMed has enhanced our value proposition for the future. BioMed broadens our capabilities beyond adhesive-based solutions to now include complementary skin care offerings including bottle and tubed gels, creams, lotions, liquids, powders and hot fill waxes. The additional capabilities strengthen our offering to customers in the Advanced Wound Care and Ostomy markets, and expand accessibility within Consumer Wellness segments for OTC, first aid and health and beauty.

We are actively engaged with major healthcare companies across all our business sectors, at every level of the value chain. We will continue to invest in the business, developing the tools, infrastructure and talent needed to deliver world class service that leading global customers require from their strategic outsource partners.

We remain positive about the future for Scapa Healthcare.



"The year-end acquisition of BioMed has enhanced our value proposition for the future."

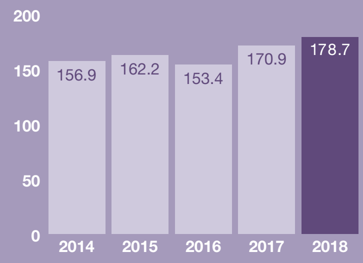
Business Review: Industrial

> "Scapa Industrial continues its journey of improving margins."

REVENUE

£178.7m

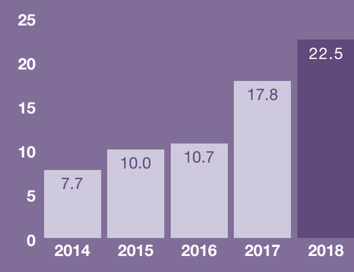
(2017: £170.9m)



TRADING PROFIT

£22.5m

(2017: £17.8m)



TROY ASBERRY
Managing Director, Industrial

"Relentless focus on return on assets to improve shareholder return."

The Industrial business unit strategy to improve return on assets while focusing on servicing our customers in our key sectors of Cable, Automotive, Construction and Specialty is working.

Our focused commercial strategy of optimising our product portfolio via direct strategic engagement with global OEMs, and gaining market share with our large global retail partners, continues to gain momentum. We continue to leverage our unique capabilities, strong manufacturing knowledge and trusted brand quality with our distribution partners. In conjunction with our commercial strategy, the self-help measures utilised to optimise our footprint and reshape the cost to serve our customer base, have accelerated margin and improved ROCE.

In addition, the Industrial business unit's first acquisition (see case study opposite) allows us to benefit from the ability to transfer the volumes to our current manufacturing footprint.

Our focus in these areas has allowed us to deliver improvements in trading profit and margin, and we see further revenue growth in specific areas against a volatile macro environment.

MARKET TRENDS AND OVERVIEW

Our Engineered Products business, where we provide bespoke solutions in our key sectors of Cable and Automotive, continues to deliver. Our commercial and technical partnerships with strategic customers allow us to offer tailored adhesive solutions to satisfy unique and specific challenges, increasing our pipeline of future growth opportunities. Our global network of manufacturing, sales and distribution facilities, coupled with the reach of our trusted partners, allows us to cost effectively meet customers' expectations.

Our Cable segment products offer integrated solutions for semi-conductive power transmission needs, deep water submarine cables and protective impermeable coverage for fibre-optic and copper communication lines. We are rapidly expanding our portfolio to include fire-resistant products, to meet the increasing demands in building regulations, off gassing and our pioneering UL listed halogen-free products. Our year-on-year success across all key performance areas is attributed to our strategic collaboration with major European subsea and high-voltage cable manufacturers, and our technical expertise offered in our solutions for unique fibre-optic protection with partners in North America. We expect this to be sustained as further investment takes place in 5G and infrastructure such as wind farms.

The Automotive segment focuses on both internal and external protection of cars. Internal protection includes products for wire harnesses, seat sensors and seat heaters. Externally, we specialise in products that protect the paint and the bumper via our Covergard™ products plus emblem mounting. Our core products are used in protection wraps for shipping and wire harnesses. Growth in the European markets continues, while in North America we continue to improve margins and focus on building our new business pipeline with higher margin products with major suppliers for new platforms. As automotive

CHALLENGE

Case study: Acquisition of Markel

The announcement that Scapa had acquired Markel, which comprised Markel Industries, Controlled Environment Equipment Corporation and CMark Films LLC, was made in August 2017.

Markel is a good fit for Scapa Industrial due to the overlap in manufacturing technologies and supply chain, where we saw opportunities to improve efficiencies. In addition, the distribution network provided cross-selling opportunities to leverage our broad product portfolio. The challenge was to:

- quickly move production to existing Scapa sites to realise the cost synergies identified
- ensure that the Scapa sales team embraced the improved commercial opportunities for the combined businesses

The integration, cross-selling of products and closure of two Markel locations to consolidate the business into an existing Scapa site is a complex operation which will complete in the first quarter of the current fiscal year. We are expecting to deliver the savings as planned. On completion, the project will deliver profit and cash improvements plus several other benefits including:

- further improved ROCE for the Industrial business unit, through increased equipment/site utilisation
- strategic cross-selling of Scapa products to Markel customers and Markel products to Scapa Europe customers
- top line revenue growth for Industrial

ACCEPTED

Business Review: Industrial
continued

manufacturers expand vehicle capabilities to include connection to multiple devices; systems for autonomous driving; larger battery banks for electrical driving; and multiple safety features, together with reduction in weight and enhanced environmental considerations, we see increased opportunities for our products. Our global network allows us to provide local presence to meet the 'just-in-time' production demands from the automotive OEMs and their suppliers.

Our Commercial Products business serves the Construction and Specialty markets with application-specific and consumable solutions. Our two brands, Barnier® and Renfrew Pro™ Hockey Tape, are well recognised market leaders in the construction and specialty sectors respectively. Barnier® is a 100-year-old brand in the construction market in France with sizeable market share, which we are expanding beyond tapes to include gloves, wipes and other products. Barnier® continues to be the trusted brand used by construction professionals in France and throughout Europe. Renfrew Pro™ Hockey Tape is the dominant brand with a large market share in the global hockey tape industry. To further drive brand awareness, we continue to increase our online media campaigns and have seen significant results in engagement across all social media platforms with our 'Feel the Game™' campaign. We also continue our journey as the brand of choice with National Hockey League (NHL) teams and players, and are proud to be the only hockey tapes manufacturer to be an Officially Licensed Product of the NHL.

The Construction sector of the business offers our largest product portfolio and continues as the main driver for our Commercial Products business. The extensive range is used by contractors, professionals and do-it-yourself enthusiasts who have access to our products through multiple direct or indirect channels with our trusted retailers and distributors. The seasonal nature of construction with a short demand cycle, which is highly dependent on macro trends, means we continue to focus our efforts on driving revenue in the spring and summer months. Our continued focus on our Polyflex™ brand in Europe and North America means we have seen it grow at near double-digit rates for the eighth consecutive year.

In our Specialty sector, we continue to maximise growth opportunities by enhancing our capability to adapt existing bonding and laminating technologies to new applications for industry leaders across the aerospace, technical packaging, white goods, protection and military markets.

T ASBERRY
Managing Director, Industrial
22 May 2018

CHALLENGE

Case study: Closure of Korean facilities and reducing our cost to serve in China

The announcement of the closure of our manufacturing, research and development and office facilities in Cheongyang and Seoul, Korea was made in May 2017.

Closing the Korean facilities and reshaping engagement with our customers in China was appropriate. We identified opportunities to improve efficiencies, reduce our cost to serve and redeploy underutilised assets to deliver higher returns. The challenge was to:

- ensure we incorporated the lessons learned from our Swiss closure in order to improve our processes and maximise the sale of the land, while managing the added complexity of cultural differences, extended distance and language barriers
- execute the closure of our research lab, prepare our manufacturing site for sale, reshape how we interact with our customers in China and realise our cost savings

The complex operation of closing two locations in Korea, while re-shaping China and reducing our cost to serve in the area by consolidating within our Shanghai location, was completed on time and under budget. The overall project will deliver an annual profit improvement of approximately £1m. Other benefits include:

- further improved ROCE through increased equipment utilisation
- strategic reviews and use of coating/mixing technology rationalisation
- reduced risk with the decommissioning and sale of the Korean facility in January 2018

ACCEPTED

FOCUSED COMMERCIAL STRATEGY	SEGREGATE INDUSTRIAL ASSETS	CREATE COATING HUBS	CREATE CONVERTING SPOKES	ACQUISITION STRATEGY
• Market focus • Customer segmentation • Pricing optimisation • Product range	• BU based structure • Separate operational infrastructure • Decentralised corporate structure • Evolve to separate legal entity	• Create coating technology hubs • Use existing assets and transfer products • Optimise marginal profit to load existing assets	• Customer centric • Mobile • Flexible • Lower investment	• Improve productivity and cost • Enable footprint optimisation • Mitigate capital investment • Provide on-boarding opportunity

ROADMAP TO INDUSTRY AVERAGE MARGINS

> "Our review of our asset base and expense structure combined with our focused commercial strategy has delivered another successful year."

STRATEGY AND BUSINESS MODEL

Our strategy is to continue improving ROCE through a business model where we continually review our asset base, manufacturing network, cost-to-serve and margin improvement programmes. Our diverse portfolio covering both Engineered Products and Commercial Products within and across the Industrial segments, with our broad technical toolbox of chemistries, materials and global supply access, makes Scapa Industrial a major player in the global pressure sensitive adhesive market. Our development platform allows us to reach across multiple markets and leverages existing products, materials and manufacturing knowledge into the hands of new and existing customers.

2017/18 PERFORMANCE

Once again, the Industrial business unit's performance exceeds trading profit and margin growth expectations. Our continued emphasis on improving our return on capital employed, gross margins, cost controls and footprint consolidation, while engaging with our strategic partner base, has lifted our performance. The business benefitted from the weakening of Sterling, the organic revenue growth of 2.4% being almost entirely due to currency. Revenue at constant currency is flat, after the loss of business which we chose not to continue following the closure of our Korean facilities and sales office consolidation in China. Similar to last year, trading profit is where we made the most impressive increase of 26.4%, and 23.8% organic at constant currency. Margins improved for the eighth year in a row to 12.6% as the business continued to improve its operational efficiency and supply chain.

OUTLOOK

Whilst 2017/18 saw an increase in margins to 12.6%, we remain confident that there is further scope to improve the business through continued execution of the ROCE strategy and driving better asset utilisation. Further margin improvement will come from the full year impact of our acquisition of Markel, plus the full year benefit from the closure of our two locations in Korea and the re-shaping in China, coupled with other opportunities. Our macro environment in some sectors is GDP dependent, but we remain focused on driving towards our goals by continuing to build on current strategic relationships for growth and focusing on our core technologies at our core sites. We are continually building the pipeline of new business with our strategic business partners as we continue to improve engagement with them. We expect to continue to see improvements as we target industry average margins of around 15%. We will do this through relentless focus on improving trading profit via our commercial strategy, along with self-help programmes to improve margins, and review of our manufacturing network while reducing our cost to serve in specific regions.

Finance Director's Review

"Sustained growth in profit and margins."

The overall financial performance of the business has been impressive, with good profit and margin improvement and a strong Balance Sheet maintained after the completion of two acquisitions in the year, one within each of Healthcare and Industrial. The dividend has again been increased by 20%, supported by our confidence in the sustainability of this growth, and the continued excellent cash generation.

REVENUE AND PROFITS

Group revenue increased by 4.3% to £291.5m (2017: £279.6m), 3.1% on a constant currency basis. Healthcare revenue was £112.8m (2017: £108.7m), an increase of 3.8%, or 4.3% on a constant currency basis with the currency gains made in H1 largely eliminated by the impact of the weakening US$ in H2. Constant currency revenue growth in Healthcare in H2 was 6.8%. Industrial revenue was £178.7m (2017: £170.9m), an increase of 4.6% (aided by the translation effect of a strong Euro), or 2.4% on a constant currency basis.

Trading profit for the Group increased by 18.2% to £34.5m (2017: £29.2m) or 17.3% on a constant currency basis. This resulted in a trading profit margin improvement of 140 basis points to 11.8% (2017: 10.4%). Healthcare contributed £17.4m (2017: £16.6m), a growth of 4.8% or 5.5% on a constant currency basis, with margins up slightly at 15.4% (2017: 15.3%). The Industrial trading profit was £22.5m (2017: £17.8m) showing strong growth of 26.4% or 24.3% on a constant currency basis, resulting in a trading margin of 12.6% (2017: 10.4%), a good step towards our medium-term aim of 15% for the Industrial business.

Trading profit is stated before; exceptional items which resulted in a gain of £0.1m in the period (2017: expense of £1.0m); pension administration costs of £0.6m (2017: £0.7m); and amortisation of intangible assets £3.3m (2017: £3.7m). The Board believes that the adjusted presentation assists shareholders in better understanding the underlying performance of the business and is adopted on a consistent basis for each set of half year and full year results.

PROFIT BEFORE TAX

The Group profit before tax was £28.8m (2017: £21.8m), an improvement of 32.1% within the year.

CURRENCY

Currency translation had an overall beneficial impact on both sales and profit during the 2018 reporting period, boosting both sales and trading profit growth by about 1%. In the second half, there was a currency headwind in the Healthcare business impacting both sales (8%) and profits (5.3%) as Sterling strengthened against the US Dollar. Across the year as a whole, the Group benefitted from the strengthening of the Euro, averaging €1.14 (2017: €1.20).

GRAHAM HARDCASTLE
Group Finance Director

"Another year of strong financial performance, with improved margins and good cash flow."

EXCEPTIONAL ITEMS

Following the closure of the Swiss site in 2016, the land and buildings were sold on 20 July 2017 for an amount of £13.3m, resulting in exceptional income of £6.9m (2017: £0.3m) following all costs associated with the sale.

Exceptional costs of £6.8m (2017: £1.3m) were recorded during the year and the charge was made up of the following items:

- Site closure and associated asset impairment costs of £4.7m for closure of our Korean facility and reduction in our China/Hong Kong footprint. On 23 May 2017, we announced plans to exit the production facility in Korea and transfer the technology, plant and machinery to other sites within the Group
- Exceptional reorganisation costs of £1.1m for a UK based manufacturing facility for employee-related severance costs
- Acquisition costs totalling £0.8m for the successful acquisition of Markel Industries ('Markel') and BioMed Laboratories LLC ('BioMed')
- Abortive acquisition costs of £0.2m were also recorded as an exceptional expense in the year for projects that had progressed as far as external due diligence but did not complete

In order to provide a clearer understanding of the performance of the Group, the above items, both income and expenses, have been separated out from trading results in line with the Group's exceptional items accounting policy disclosed in note 4 on pages 93 and 94.

SEGMENTAL PERFORMANCE

In line with prior year reporting, we continue to manage separately the Group's Healthcare and Industrial activities, and our segmental reporting reflects this. Corporate costs, at £5.4m (2017: £5.2m) which include the costs associated with the Board, governance and listed company costs, are reported separately to Healthcare and Industrial.

ALTERNATIVE PERFORMANCE MEASURES

We use a number of alternative performance measures to assist in presenting information in this statement in an easily analysable and comprehensible form. We use such measures consistently at the half year and full year and reconcile them as appropriate, and they are used by management in evaluating performance. The measures used in this statement include:

- Constant currency revenue and trading profit: this reflects prior year results translated at the current year's average exchange rate
- Trading profit: this is profit before exceptional items, pension administration costs and amortisation of intangibles and allows the impact of restructuring and reorganisation activities and acquisition costs to be identified separately. These items are excluded as they are seen as non-trading items and are treated consistently with prior years
- Net debt: comprises cash and cash equivalents net of current borrowings, obligations under finance leases and unamortised debt issue costs
- Trading margin: this is trading profit divided by sales
- Organic underlying sales: this excludes the impact of acquisitions within the reporting period
- Adjusted Earnings per Share: this is earnings per share using the Trading profit after tax and is reconciled in note 10 on page 97 of the accounts

GROUP REFINANCING AND NET FINANCE COSTS

The Group's revolving credit facility was due to expire in June 2018. During the year the Group secured replacement banking facilities from a revised banking syndicate and entered into a new revolving credit facility (RCF) on 31 October 2017.

The previous £60m multi-currency RCF has been increased to a five-year £70m facility with a maturity of October 2022.

Features of the replacement facilities include:

- a multi-currency £70m RCF of which £20.8m was drawn at 31 March 2018 providing the Group with a significant committed funding headroom
- a 50bps reduction in non-utilisation fee and a 40bps reduction in margin
- less complexity in key operational covenants
- a £30m uncommitted accordion feature to provide further capacity for potential future acquisitions to support the strategy of the Group

Net finance costs were £1.9m (2017: £2.0m). Net cash interest remained constant at £1.2m (2017: £1.2m). Non-cash interest reduced to £0.7m (2017: £0.8m) and relates to the Group legacy defined benefit pension plans.

TAX RATE

The Group's tax charge was £5.3m (2017: £4.2m) and includes a £5.4m charge (2017: £5.6m) on trading activities and a £0.1m credit (2017: £1.4m credit) on exceptional items.

The Group's effective tax rate is a blend of the different national rates from the operating subsidiaries in the various countries in which we operate, applied to locally generated profits. Our tax arrangements are driven by commercial transactions, managed in a responsible manner based on compliance, transparency and co-operation with tax authorities. Tax planning remains conservative with no use of hybrid entities or tax havens.

We report an adjusted effective tax rate to give the best indication of the Group's tax commitments. This tax rate is calculated on trading activities after the deduction of cash interest. The rate in the current year is 16.2% (2017: 20.0%). The passing of the Tax Cuts and Jobs Act in the USA in December 2017 resulted in a £2.4m net one-off gain, as the Group's US deferred tax liabilities were revalued as a result of the reduction in the US Federal corporate income tax rate. Accordingly, the Group's tax rate is significantly lower, at 16.2% (2017: 20.0%). Although the other national rates applied to local profits are generally higher than the UK standard rate, the Group also benefits from unrecognised tax losses in the UK along with sensible and compliant tax planning.

The Group's cash tax payment in the year was £2.8m (2017: £2.8m) or 8.1% of trading profit. Cash tax remains below the effective tax rate in 2018, as the Group was able to use brought forward losses. As the Group continues to increase its profitability, we expect to see from 2019 onwards cash tax payments becoming more in line with the effective tax rate as brought forward losses in certain non-UK jurisdictions are used up.

Finance Director's Review
continued

CASH FLOW

	2018 £m	2017 £m
Cash generated from operations	**34.7**	32.7
Cash outflow on exceptional items	**(3.6)**	(3.6)
Net capital expenditure	**(6.4)**	(8.3)
Net tax and interest	**(4.1)**	(4.0)
Proceeds from disposal of available-for-sale assets	**13.3**	–
Free cash flow	**33.9**	16.8
Dividend paid	**(3.0)**	(2.6)
Exchange and other movements	**1.9**	–
Increase in net cash	**32.8**	14.2
Opening net debt	**(16.1)**	(2.6)
Acquisitions	**(20.5)**	(27.7)
Closing net debt	**(3.8)**	(16.1)

NET DEBT TO EBITDA

The Group's revolving credit facility was refinanced on 31 October 2017 with a duration of five years, increasing the available financing from £60m to £70m with a further £30m uncommitted accordion. The refinancing was achieved on favourable terms, with improved margins and greater flexibility. At the year end net debt was £3.8m (2017: £16.1m). The ratio of net debt to EBITDA was 0.09 times, giving significant headroom against our facility covenant of 3 times. The Group continues to operate well within its banking covenants with significant headroom under each ratio at year end.

	2018 £m	2017 £m
Trading profit	**34.5**	29.2
Depreciation	**6.3**	6.2
EBITDA	**40.8**	35.4
Net debt to EBITDA	**0.09x**	0.45x

ACQUISITION ACTIVITY

A high level of acquisition activity was maintained throughout the year with a large number of companies evaluated, resulting in the successful completion of two acquisitions.

On 8 August 2017, the Group acquired the US based company, Markel, a manufacturer of multi-layer adhesive footwear cleaning mats, for US$10.2m (£7.6m). This is our Industrial business unit's first acquisition, and the integration of the company into the existing Scapa footprint is progressing well. Reorganisation costs of US$0.7m (£0.5m) were charged against trading profits in the period relating to the consolidation.

On 23 March 2018, the Group also acquired the share capital of BioMed, based in Dallas, Texas, for an initial cash consideration of US$18.6m (£13.3m) with a further cash consideration of up to US$13m payable to the shareholders depending on performance in calendar years 2018 and 2019. BioMed is a leading developer and manufacturer of gels, creams, lotions and liquids for the wound care and consumer wellness markets, and supports the Group's strategy to expand its offering of turn-key solutions for our Healthcare customers beyond the adhesives value chain.

EARNINGS PER SHARE

Adjusted earnings per share improved by 23.0% to 18.2p (2017: 14.8p) and basic earnings per share was 15.4p (2017: 11.6p), an increase of 32.8%.

CASH MANAGEMENT

Delivering good cash generation is core to Scapa's strategy – it is always part of the regular monthly routine but there was a particular focus this year due to 31 March falling on Easter Saturday, which we were concerned could affect cash collections. Net debt closed at £3.8m (2017: £16.1m) – a stronger than expected performance, after payment for the acquisitions of Markel and BioMed as outlined above, offset by the receipt from the sale of the Swiss property for £13.3m.

This strong cash generation funded net capital expenditure of £6.4m (2017: £8.3m), net cash interest paid of £1.3m (2017: £1.2m), income tax paid of £2.8m (2017: £2.8m), pension contribution payments of £4.4m (2017: £4.6m) and a dividend payment of £3.0m (2017: £2.6m).

A summary of the major movements is provided in the table opposite.

The ratio of net debt to EBITDA was 0.09 times, giving significant headroom against our improved facility covenant of 3 times. The Group continues to operate well within its banking covenants, with significant headroom under each ratio at year end.

DIVIDENDS AND CAPITAL ALLOCATION

The Board is recommending a 20.0% (2017: 14.3%) increase in the full year, final dividend of 2.4p (2017: 2.0p). This increased dividend balances both the strong cash performance in the period and our underlying confidence in our business, whilst maintaining Balance Sheet capacity to support the future growth of the Group. Dividend cover, the ratio of adjusted earnings per share to dividend per share, is 7.6 times (2017: 7.4 times). Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 17 August 2018 to shareholders on the register on 20 July 2018.

Our objective is to maximise long-term shareholder returns through both organic growth and growth through acquisitions. We continue to adopt a cash allocation policy that allows for continuing investment in capital projects that support growth and health and safety, regular returns to shareholders from our free cash flow, and acquisitions to supplement our existing portfolio of business whilst maintaining an efficient Balance Sheet appropriate to the Company's investment requirements.

POST-RETIREMENT BENEFITS

The Group has no open defined benefit schemes and the majority of the post-retirement benefit schemes for employees are defined contribution. The Group's Balance Sheet carries pension deficits that relate to schemes that have been closed for many years, and some very small overseas leaving indemnities that are classed as defined benefit.

The Company has recently set up a joint working group with the UK Pension Scheme Trustee to select joint advisers as we have reached a stage where the Group's goal to move the UK scheme to a full buy-out position is becoming more achievable. We continue to manage the cost and volatility of the legacy pension deficits and we continue to see good take-up of the Flexible Retirement Options (FRO) that are now embedded into the UK scheme.

The triennial valuation date for the UK pension scheme was 31 March 2017. The valuation is nearing completion and we have agreed with the Scheme Trustee that no changes will be required to the contributions arrangement beyond those agreed through the 2012 Central Asset Reserve (CAR) structure, which were £3.9m (2017: £3.9m) in the year.

During the year, the fair value of the UK scheme liabilities fell by £14.0m largely due to changes in demographic assumptions, whilst the fair value of the UK scheme assets also fell by £4.2m as a result of the benefits paid to members net of Company contributions and return on asset investments. This resulted in an overall significant decrease of £9.8m in the IAS 19 scheme deficit to £14.0m (2017: £23.8m).

The scheme's investment strategy includes a portfolio of assets that are matched to the duration of the member liabilities. This strategy hedges the deficit from changes in bond yields that affect the discount rate and is reflected in the asset and liability movements in the current year.

Overseas cash contributions were £0.7m (2017: £0.9m); these contributions relate to leavers and not to a deficit repair schedule of payments. Pension administration expenses of £0.6m (2017: £0.7m) in relation to the pension schemes are reported through operating profit under IAS 19.

The overall Group pension deficit for all schemes totalled £21.0m (2017: £31.4m) at the end of March 2018.

Scapa has other pension projects in the pipeline and will continue to execute projects that provide a good balance of member and Company benefits whilst looking to de-risk the scheme further as we move forward with our joint working group with the UK Pension Scheme Trustee.

SHAREHOLDERS' FUNDS

Shareholders' funds increased by £18.5m to £118.9m. Profit after tax increased to £23.5m (2017: £17.6m). The pension gain in the period was £6.6m (2017: £6.9m loss). Movements in equity that related to share issues, dividends and options reduced shareholders' funds by £1.1m (2017: £0.7m decrease). Currency movements on overseas asset values were unfavourable in the period at £9.8m (2017: £12.7m favourable). Tax items booked directly into reserves were £0.7m (2017: £Nil).

BREXIT

As a global business with over 90% of the Group's activities outside of the UK, Scapa has limited exposure to Brexit. The main impact felt so far has been on the translation of overseas results from the recent unpredictability of Sterling, particularly against the US Dollar. The Group has continued to review the implications of the result of the UK referendum to leave the EU on our business model and whilst Brexit has introduced a level of uncertainty into how our European business will operate in the future, we are experienced in dealing with the challenges associated with trading across borders that do not benefit from the Single Market and are confident we will be able to adapt to any new requirements during the transition period. Potential increased levels of bureaucracy may incur additional compliance costs but we do not believe that these will be material to the Group.

The Board will continue to assess the implications of the changes as they emerge, in particular relating to customs and duties.

RISK MANAGEMENT AND THE YEAR AHEAD

Risk is managed closely and is spread across our businesses and managed to individual materiality. Our key risks have been referenced in this Annual Report primarily on pages 12 to 18, in the Chief Executive's Strategic Review and in the Audit and Risk Committee report on pages 46 to 49. We have a Code of Conduct, which is adopted internationally and reflects our ethical approach to business. The Board has considered all of the above factors in its review of going concern as described on page 66 and in the Viability Statement on page 19 and has been able to conclude the review satisfactorily.

G S HARDCASTLE
Group Finance Director
22 May 2018

Sustainability Report

"Challenging ourselves to maximise the potential in our people is fundamental to our success."

Focusing on the development of our people is an ongoing priority, not only to support the delivery of current expectations but to equip our workforce with the skills and knowledge required to deliver and be ready for future growth. Our global presence provides the benefit of a broad range of experience, talent and skills which we continually aim to utilise and maximise.

MAXIMISING

We benefit greatly from the diversity that comes with an international workforce. To promote diversity and inclusion across the Group, we delivered 335 hours of diversity training for managers globally, covering the value that can be harboured from diversity and aiming to develop managers' skills of attracting and managing talent from diverse backgrounds.

In addition, as part of the continuous improvement across all of our programmes, we strengthened the recruitment process, developing our recruiting training to include specific guidance on diversity and enhancing online recruitment tools to ensure a thorough and fair process based on virtues and talents.

Our annual Code of Conduct training outlines the Company's standards of behaviour and reinforces the application of our Guiding Principles across key areas: Working with Integrity, Compliance, and Respect for Others. For the third year running the training was completed by 100% of employees across the Group. To complement the Code of Conduct, we reviewed and aligned all global policies to provide in-depth guidance across core business processes. All policies were relaunched in a newly created online policy library to provide a central and accessible platform for all employees.

Our annual performance management process saw 100% of employees compliant, completing reviews against their annual performance expectations and providing key examples demonstrating their application of the Guiding Principles.

In line with the General Data Protection Regulation (GDPR), we conducted a thorough review of our internal processes and third party relationships to ensure that we are compliant for the upcoming legislation.

"All managers trained in diversity globally."

100%
of employees trained in the Code of Conduct

100%
completion of performance management records 2017/2018

90%
of employees access online training resources

77
online training courses in the Scapa Academy, 16 added during 2017/18

52%
of our senior roles have internal successors

CHALLENGE

Case study: CEO Awards

Our annual CEO Awards recognition scheme encourages teams from across the Group to submit examples from throughout the year of work that excels in one of our four categories: Compliance, Change, Customer Focus and Entrepreneurship.

The global award for 2017 was awarded to a team in Renfrew, Canada, who implemented a new concept across the site, 'Team of Teams'.

This project was inspired by a guest speaker at the annual Leadership Conference that was held in Manchester in April 2017 who, as an ex-military officer, spoke about the benefits of a structure of one team made up of sub-teams instilled with trust and purpose, allowing them the authority and ability to solve problems with their own solutions. From this, Tom Kubiseski, Operations Director for Renfrew, took the concept to site with a clear message: teams had the decision rights to solve any problems they knew how to solve immediately. Production staff in Renfrew took ownership of this concept, dividing into five teams, by shifts and production areas. Each team met formally on a weekly basis and in smaller 'ad-hoc' groups whenever an opportunity for improvement presented itself, to address challenges as quickly and effectively as possible.

By adopting this approach, within a short space of time the team has seen results in scrap reduction, efficiency improvements, modifications to practices and processes and improvements in the cross-training of production staff.

Over 120 areas of improvement have been identified during the course of the year, driven by production operators, with approximately 80% of these opportunities actioned and implemented. Any challenges or opportunities that could not be addressed immediately were channelled to engineering, maintenance or operations teams to pursue solutions.

The new ways of working have promoted and adopted entrepreneurship at the site, empowering all employees to create value through their increased decision rights. The team continues to examine every process to deliver incremental improvements for their site and will share their approach across our global teams.

ACCEPTED

PREPARING OUR PEOPLE FOR FUTURE GROWTH

As a global company, we benefit from a broad range of skills and experience. Continually challenging ourselves to maximise the value from within the business and the potential in our people is fundamental to our success.

We continue to focus on the development of talent within the business through our Talent Management programmes, which assess three key factors: performance, potential and engagement. We maintain assessment coverage of our leadership population at 100% and leaders and employees with high potential were assigned talent development actions for the year, which provide learning opportunities through one of our key development programmes.

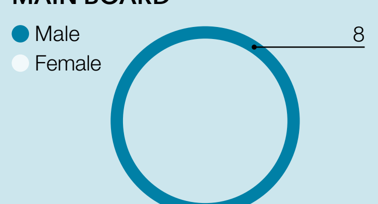
An additional 26 leaders took part in the talent development programme throughout the year. The Harvard ManageMentor® programme continues to provide valuable learning on a range of topics, and participants in the Executive Mentoring programme and formal coaching programme benefited from development and career guidance. In addition, a selection of leaders were given the opportunity to participate in the annual CEO Awards judging panel, providing exposure and access to global teams and projects.

As part of our Talent programme, the Succession Planning tool continues to provide valuable, future-focused insight to prepare for growth and minimise organisational risk to the business. As a result of the formal assessment of talent, we have identified potential internal successors for 52% of global senior roles, and action planned for the remaining roles.

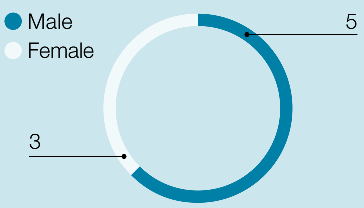
To continually develop knowledge across the Group, 2,000 hours of training were delivered during the year. Building on the successful launch of our online learning management system, 'The Scapa Academy', we continue to extend our training offering across a range of business topics, with 77 modules currently live in the system. Particular focus was placed on the development of functional training, where teams were coached on creating training courses of specific interest; for example product training, to promote knowledge

Gender Ratio

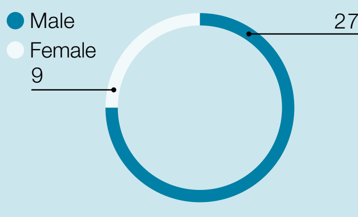
MAIN BOARD



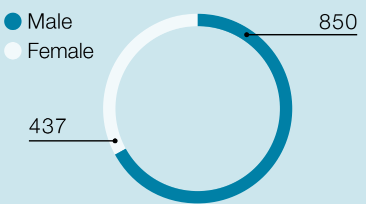
EXECUTIVE TEAM



LEADERSHIP TEAM



TOTAL EMPLOYEES



sharing across the Group. 90% of employees accessed our online learning resources and completed 1,135 hours of online training.

We continue to develop the way in which we collaborate and share knowledge across the Group through ongoing enhancements to our in-house platforms.

Our in-house employee database, HR Connect, continues to expand, with the addition of our online and automated reward tool. Integration of this tool alongside performance management records allows managers to make informed decisions based on real time and reliable data from both within the business and from external benchmarking. As we continue to drive a high-performing culture, the integration of these processes provides the opportunity to incentivise employees appropriately and reward high performance effectively.

During the year, we launched a new intranet site, the HR Hub, which provides managers and employees with direct access to a range of tools and resources whilst encouraging self-service access to all people programmes across our four key areas: Attraction and Recruitment; Talent and Development; Performance and Reward; and Culture and Engagement. Managers and employees can access the Hub to gain further understanding of our key initiatives, processes and cyclical HR activity.

DRIVING ENTREPRENEURSHIP FOR GROWTH

Our global programme 'The Scapa Way' continues to drive an entrepreneurial culture throughout the Group, which aims to create an environment where our people can create value freely, in line with our Guiding Principles. During the year, we refined the implementation assessment tool based on leadership and management feedback. In addition, we conducted a survey with the Leadership Team, the Champions' team and HR teams to assess the adoption of the culture programme against the implementation targets and used the data to develop action plans to improve.

To support knowledge sharing, and incorporate the learnings from throughout the duration of the programme, a new intranet site dedicated to The Scapa Way was launched with updated and accessible resources to support sites in applying the framework consistently.

Our global recognition scheme, 'Living our Guiding Principles', continues to drive employee recognition for the demonstration of the Guiding Principles, with a total of 219 awards given throughout the year.

CREATING VALUE IN OUR COMMUNITIES

With a far-reaching footprint, we aim and are able to create value in our local communities, and continuously challenge ourselves to find new ways of supporting local initiatives.

Throughout the year, employees at our site in Dunstable have supported the charity 'Kids In Action' by raising sponsorship to participate in events such as a 5k Fun Run, bowling events, quiz nights and raffle events. A total of £3,000 has been raised for the charity so far, with the Company matching the donations.

Our team in Renfrew supports the Renfrew Victoria Hospital Foundation in Canada. Since May 2014, the team has contributed towards the 'I Choose RVH' campaign which is dedicated to the major redevelopment and expansion of the community hospital. The team has pledged to raise CAD$300,000, made up of employee contributions and Company matched funds. Employees committed to raising CAD$50,000 for the cause over the next five years, but are on track to reach this goal within four years. To date, employees have contributed over CAD$37,000 in approximately three years from voluntary payroll deductions.

At a Group level, we continue to partner with The Hallé, who offer concerts, recordings, radio broadcasts and educational outreach programmes to local, national and international communities. We also continue to support the Boston Children's Hospital.

ENVIRONMENT, HEALTH AND SAFETY

Scapa's overriding commitment in the workplace continues to be the health, safety and welfare of its employees and all those who visit the Company's operations. This commitment extends to those who carry out work on our behalf.

Identifying and complying with applicable legislation underpins all our health and safety activities and improvement initiatives.

The Board provides environmental, health and safety leadership and the Group Chief Executive has primary responsibility for setting the principal objectives within which the detailed policies operate. The Chief Operating Officer, supported by the Group EH&S Director, ensures that adequate resource is available to successfully deploy and measure operational health, safety and environmental improvement plans.

PERFORMANCE

Over the past 12 months we have focused our resources and initiatives on delivering improvements in three key areas:

- Increasing the level of EHS involvement across the entire organisation
- Improving the level of accountability and expectation for health and safety continuous improvement
- Strengthening our processes and systems for identifying and complying with global legislation

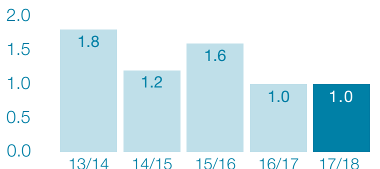
Although improvement has been achieved and sustained, we believe the EHS continuous improvement cycle is a journey. Initiatives to improve involvement and accountability will continue over the next 24 months to help us to further reduce our accident potential.

HEADLINE ACHIEVEMENTS

- Sustained Lost Time Accident Frequency Rate
- Identified over 4,500 safety opportunities via our Stop, Think & Ask Programme
- Completed over 5,000 corrective actions and improvements
- Ashton and Dunstable achieved OSHAS 18001
- Ghislarengo achieved ISO 50001
- Completed over 1,500 hours of EHS training
- Launched a new See, Stop, Think & Ask Programme
- Three locations achieved greater than one year without a Lost Time Accident
- Improved our energy utilisation by 2.8%
- Invested over £180,000 in EHS improvements, with plans for a further £200,000 over the next 18 months

Our Lost Time Accident Frequency Rate has been maintained at last year's level. The Scapa expectation is that all accidents are preventable. However, we recognise that accident performance alone does not provide a complete picture of our health and safety performance. Our increased understanding of our health and safety risk profile, coupled with the pro-active initiatives and programmes we have implemented, will ensure a sustained reduction in our lost time accident occurrence.

LOST TIME ACCIDENT FREQUENCY RATE



The fatal incident in Dunstable in April 2018 has saddened the Board and employees. We are co-operating with the HSE in its investigation and will seek to ensure that such an incident does not occur again.

ENVIRONMENT

Scapa recognises the importance of world class environmental stewardship. To help us deliver on this expectation, we apply a structured approach to assessing, maintaining and reducing our environmental impact by:

- Implementing and maintaining environmental and energy management systems based on international standards
- Measuring and monitoring consumption and emissions, and setting targets to improve performance
- Conducting environmental impact assessments and developing site improvement plans
- Providing training to employees, and engaging with customers and suppliers to raise environmental awareness
- Identifying and complying with all relevant environmental laws and regulations

Given the diversity of Scapa's international operations, local management drives environmental performance in accordance with Group policy. Specific site-level objectives have been established to ensure compliance with local legislative and external management system requirements.

Scapa uses a variety of indicators to monitor environmental performance, but the following core impacts are identified for the Group as a whole:

- Greenhouse gas emissions from energy use, including electricity, natural gas and heating fuel
- Use of resources
- Generation and disposal of waste

The following assumptions, methodology, definitions and data validation processes have been used to report the Group's key environmental performance indicators in 2017/18. The reported data complies with the Companies Act, for the Mandatory Reporting of Greenhouse Gases.

- Boundary scope: Data from all locations over which the Company has operational control is collected and measured
- Primary data sources: These include billing, invoices and other systems provided by the supplier of the energy to communicate energy consumption
- Secondary data sources: These include the Company's internal systems used to record and report the above consumption data
- Internal data validation: The process used to review and compare primary data with secondary data
- Conversion factors: The 2016 Government GHG Conversion Factors for Company Reporting, published by the UK Department for Environmental Food & Rural Affairs (DEFRA), are used when converting gross emissions. The applicable country conversion factors published in this guidance have been applied to operations outside of the UK
- Intensity metrics: Total carbon emissions per £m of revenue and direct labour hours worked are used to calculate the Company's intensity metrics

Sustainability Report
continued

ENVIRONMENTAL PERFORMANCE

	Tonnes of CO_2e (Gross)		
	2016	2017	**2018**
Scope 1	14,209	13,008	**12,984**
Scope 2	19,915	18,915	**18,746**
Total gross emissions	34,124	31,923	**31,730**
Total carbon emissions per £m revenue	138	114	**109**

OUTLOOK

To support Scapa's philosophy of continuous improvement the following headline objectives have been established for 2018/2019:

- Execute in full, capital and revenue improvement projects valued at £0.3m
- Achieve certification to OSHAS 18001 at our First Water location
- Extend the ISO 50001 scope to our Valence and Orangeburg operations
- Achieve a corrective action closure rate of 98%
- Reduce our accident rate by a minimum of 25% against prior year
- Deliver site level annual improvement plans to 98% adherence to plan
- Continue to embed the Scapa physical systems and compliance expectation and audit process

SUPPLY CHAIN CORPORATE RESPONSIBILITY

We have a robust framework of corporate responsibility policies, including our Human Rights Policy, our Code of Conduct and sustainability approach.

The roll-out of 'S.P.I.R.E.' (Supplier Performance Improvement & Requirements Evaluation) continues as we look to reinforce and supplement Scapa's existing procedures and best practice methods of supplier evaluation. The global procurement and quality teams have adopted a consistent, robust, documented and interactive supplier evaluation, selection and ongoing assessment approach which includes detailed due diligence and supplier certification in respect of many compliance issues including slavery and human trafficking. Subsequent disclosure statements will include an update of the S.P.I.R.E. project and the effect of its use throughout the business.

HUMAN RIGHTS

We define human rights as basic rights that allow individuals the freedom to lead a dignified life, free from fear or want, and free to express independent beliefs.

We acknowledge the responsibility of businesses to respect human rights, by acting with due diligence to avoid infringing on the rights of others and to address any adverse impacts in which they are involved, in line with the UN Guiding Principles on Business and Human Rights (the Ruggie Framework).

Our aim is to ensure that we adhere to international human rights standards, both through our own actions and by association with business partners and suppliers, by providing a framework of fundamental principles of human rights by which Scapa will be guided in the conduct of its business. Scapa sources materials (including fabrics, paper, rubber, films and chemicals) from a wide variety of suppliers around the world that range from large international organisations to specialist local companies.

Scapa has made a disclosure in accordance with the UK Modern Slavery Act 2015 which incorporates the requirements under the California Transparency in Supply Chains Act 2010. This can be found on the Scapa Group website at www.scapa.com.

CODE OF CONDUCT AND SUSTAINABILITY APPROACH

Scapa aims to act with integrity and professionalism with all suppliers and to support them to help achieve a responsible and sustainable approach across the supply chain. We recognise that some smaller suppliers may find it challenging to adopt the practices expected. In such cases, Scapa will adopt a risk-based approach to ensure that their contribution to its responsibility and sustainability agenda progresses in line with their capabilities.

Our supply chain corporate responsibility policy statement is founded upon this belief. For suppliers, Scapa will look to ensure that:

- suppliers' products comply with both their own product legislation and that of any countries for which the product is ultimately destined
- human rights responsibilities in line with the UN Ruggie Framework are conformed to
- employee working conditions of our suppliers are safe and hygienic, with working hours that are not excessive, and at least the legal minimum wage is paid for the location
- employees are not subject to harassment or discrimination
- materials used during the manufacturing process do not create any adverse environmental impacts
- materials purchased by suppliers are sourced from responsible producers, with appropriate traceability systems
- products supplied to Scapa do not lead to any adverse impacts on the health of any users in the supply chain
- consideration is given to the environmental impacts of the products supplied (including packaging and transport to Scapa manufacturing locations)
- suppliers have ethical business practices in place, including those relating to the avoidance of bribery or corruption

For supply chain management, Scapa will ensure that:

- procurement teams segment their suppliers based on spend and by responsibility and sustainability risk
- certain suppliers receive, complete and return the self-assessment responsibility and sustainability questionnaire, together with copies of Scapa's Code of Conduct and anti-bribery guidance
- supplier legal agreements are in place to ensure compliance
- responsibility and sustainability development plans will be agreed with larger suppliers, identifying mutual benefits
- training on responsibility and sustainability matters will be provided to each procurement team

This Strategic Report is approved.

By order of the Board

H R CHAE
Group Chief Executive
22 May 2018

Chairman's Introduction to Corporate Governance

LARRY PENTZ
Chairman

The statement of corporate governance practices set out on pages 37 to 68, including the reports of Board Committees, and information incorporated by reference, constitutes the Corporate Governance Report of Scapa Group plc.

DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present Scapa Group plc's Corporate Governance Report for the year ended 31 March 2018. This report seeks to provide shareholders and stakeholders with a clear understanding of how we discharge our governance duties and apply the principles of good governance set down in the UK Corporate Governance Code ('the Code').

The Board continues to remain fully supportive of the principles laid down in the Code and keeps under review its systems, policies and procedures that support the Group's sustainability and governance practices. The Board is responsible for maintaining high standards of corporate governance which necessitates managing the business in a transparent and accountable way. Transparency is fundamental to delivery of the Group's strategy and to enabling value creation for shareholders and stakeholders. This ethical leadership is cascaded throughout the business with adherence to our Scapa Code of Conduct, for which online training is undertaken by all employees on an annual basis and practised through the application of our Guiding Principles.

The composition of the Board is reviewed to ensure that we have a diverse balance of skills, experience and knowledge required to achieve our strategic goals. Board succession planning is an important element of our corporate governance regime and rigorous procedures are in place to attract, assess and develop Board and Executive Team talent. All appointments are made on merit, and the Board will consider suitably qualified applicants from as diverse a range as possible, with no restrictions on age, gender, religion, ethnic background or current executive employment, but whose competencies and knowledge will enhance the Board. I am pleased to report that during the year we have appointed two new Non-Executive Directors, Pierre Guyot and Brendan McAtamney, both of whom have a wealth of knowledge and experience relevant to our business. Their biographical details are set out on pages 38 and 39 of this report.

As in prior years, an internal evaluation of the Board and each of its Committees has been undertaken. The conclusions from the evaluation confirmed that the Board continues to function effectively as a whole and in Committee, and that all Directors properly discharge their duties. The process identified areas where improvement could be made and actions will be taken in the coming year to ensure these are addressed. The Board did consider using external consultants to facilitate the performance evaluation. It was felt that this year using an external facilitator would not be as beneficial as it could be, given the changes to the Board and processes. In line with best practice, consideration will be given to undertaking next year's evaluation using an external consultant.

In January 2016, the Board took the decision that all Directors be proposed for election or re-election at each Annual General Meeting of the Company. Richard Perry, Senior Independent Director, has been a member of the Board since 2005 and has indicated his intention to retire at the July 2018 AGM. I would like to thank Richard for the advice and support he has given me as Chairman and for his contribution and commitment to the Company and the Board of Directors over the past 13 years.

Details of the Annual General Meeting to be held on 17 July 2018 are included in this report and I look forward to meeting shareholders at that meeting.

L C PENTZ
Chairman
22 May 2018

Board of Directors and Company Secretary

The right mix of skills and experience

LARRY PENTZ

Chairman

Appointment to the Board

Larry joined the Board as Chairman-Designate in January 2017 and was appointed Chairman on 31 March 2017. Larry is also Chairman of the Nomination Committee.

Experience

Larry is currently also Chairman of Victrex plc, a position he has held since 2014 and prior to which he was a Non-Executive Director from 2008. Larry was an Executive Director of Johnson Matthey plc from 2003 to 2016 and has over 30 years' service within multi-national businesses in a variety of operational and general management positions.

Committee membership

HEEJAE CHAE

Group Chief Executive

Appointment to the Board

Heejae joined the Board as an Executive Director in September 2009 and subsequently became Group Chief Executive in November 2009.

Experience

Prior to joining Scapa, Heejae was Group Chief Executive of Volex Group plc. He spent the early part of his career in finance at The Blackstone Group and Credit Suisse First Boston before moving into industry. Heejae is currently a member of the Board of Overseers of the Boston Children's Hospital. Heejae was appointed as a Non-Executive Director of IP Group plc on 3 May 2018.

GRAHAM HARDCASTLE

Group Finance Director

Appointment to the Board

Graham joined the Board in February 2016 as an Executive Director and assumed the role of Group Finance Director on 1 May 2016.

Experience

Graham is a Chartered Accountant. Prior to joining Scapa, Graham was Group Finance Director at Bridon International and has held a number of senior finance positions at Smith & Nephew plc and Smiths Group plc.

RICHARD PERRY

Non-Executive Director

Appointment to the Board

Richard joined the Board in 2005 and was appointed Senior Independent Director in July 2006.

Experience

Richard was Group Finance Director at Fenner plc from 1994 until his retirement in March 2015. He was formerly a senior audit partner with Price Waterhouse.

Committee membership

MARTIN SAWKINS

Non-Executive Director

Appointment to the Board

Martin joined the Board in January 2015 and is Chairman of the Remuneration Committee.

Experience

Martin is currently a Non-Executive Director for Wincanton plc and Africa Exclusive Ltd. Martin was Group HR Director of Rentokil Initial Plc from 2008 until 2015. He has operated within both the plc and private equity environment and is a former HR Director of HomeServe plc, The AA Ltd and Centrica Home and Road Services. Martin graduated with a BSc (Hons) in Physics from Southampton University.

Committee membership

DAVID BLACKWOOD

Non-Executive Director

Appointment to the Board

David joined the Board in May 2016 and is Chairman of the Audit and Risk Committee.

Experience

David is Audit Chair and Senior independent Director of Dignity Plc. He was previously Group Finance Director of Synthomer plc, a position from which he retired in May 2015. Prior to that, he was Group Treasurer at Imperial Chemical Industries plc and held a number of senior positions within ICI over a period of 22 years. David is a Chartered Accountant and a Fellow of the Association of Corporate Treasurers.

Committee membership

PIERRE GUYOT

Non-Executive Director

Appointment to the Board

Pierre joined the Board on 8 January 2018.

Experience

Pierre has over 30 years' experience in the international healthcare industry and is currently a Director of Permobil AB, Sweden, Peters Surgical SA, France and Limflow SA, France. From January 2014 until 31 December 2017, Pierre was a Director of Spineguard SA, France, and from 2007 to 2014, he was the Chief Executive Officer of Mölnlycke Health Care in Sweden. Prior to this, Pierre served in various roles in sales and marketing and EMEA positions with Becton Dickinson, Johnson & Johnson, and Boston Scientific.

Committee membership

BRENDAN MCATAMNEY

Non-Executive Director

Appointment to the Board

Brendan joined the Board on 1 February 2018.

Experience

Brendan was appointed Chief Executive Officer of UDG Healthcare on 2 February 2016, having served as an Executive Director since December 2013, and having originally joined UDG as Chief Operating Officer in 2013. Prior to that, Brendan has held various senior management positions with Abbott, latterly as Vice President Commercial and Corporate Officer within its Established Pharmaceuticals Division.

Committee membership

WENDY BAKER

Group General Counsel and Company Secretary

Appointment

Wendy joined Scapa in September 2017.

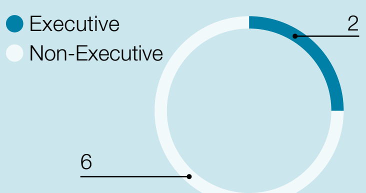
Experience

Wendy is a solicitor with over 15 years' experience as General Counsel and Company Secretary for multi-national, fully listed and AIM listed companies, including Volex Group plc, Promethean World plc and API Group plc. Wendy also qualified as an associate of the Chartered Insurance Institute prior to joining the legal profession.

COMMITTEE MEMBERSHIPS

1 Nomination Committee
2 Remuneration Committee
3 Audit and Risk Committee

BOARD COMPOSITION



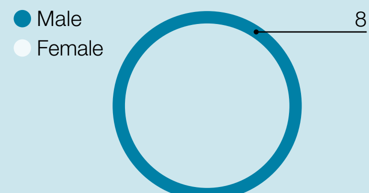
LENGTH OF TENURE OF DIRECTORS

Directors	No.
Less than one year	2
One to three years	3
Three to six years	1
More than six years	2

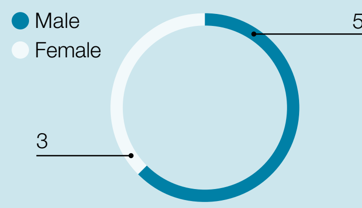
Corporate Governance

Gender Ratio FY 2018

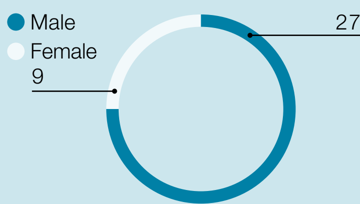
MAIN BOARD



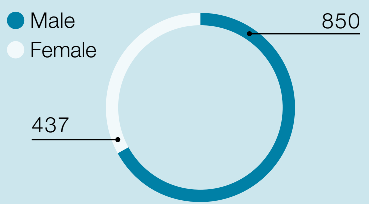
EXECUTIVE TEAM



LEADERSHIP TEAM



TOTAL EMPLOYEES



BOARD COMMITTEES

The Board has delegated certain responsibilities to the following Board Committees:

- the Audit and Risk Committee
- the Nomination Committee
- the Remuneration Committee

The reports of the Audit and Risk Committee, Nomination Committee and Remuneration Committee are set out on pages 46 to 65.

Each Committee operates under clearly defined Terms of Reference which are reviewed annually. Each Committee provides update reports to the Board via the Chairman of the Committee. Each Committee has sufficient resources to undertake their duties, including access to the Company Secretary and external advisers, where appropriate.

Audit and Risk Committee

The Audit and Risk Committee's main responsibilities are to monitor the integrity of the Group's financial statements, to review internal and external audit activity and to monitor the effectiveness of risk management and internal controls.

Nomination Committee

The Nomination Committee is responsible for Board recruitment and succession planning, to ensure that the Board is balanced and comprises the correct skillsets.

Remuneration Committee

The Remuneration Committee is responsible for determining all elements of remuneration for the Executive Directors and Executive Team and for reviewing the appropriateness and relevance of the Group's remuneration policy.

Compliance statement

A detailed review of the Company's compliance with the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in April 2016 ('the Code') has been undertaken. The review took into account the FRC Guidance on Board Effectiveness issued in March 2011, the FRC Guidance on Audit Committees issued in September 2012 and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014. The Company has voluntarily complied with all relevant provisions of the Code throughout the year ended 31 March 2018 and through to the date of this report. The Group's internal controls are summarised on page 45.

LEADERSHIP

The role of the Board

The Board is responsible for the long-term success of the Group and is ultimately accountable for the Group's strategy, risk management and performance. The Board's primary roles are; to provide entrepreneurial leadership to the Group within a framework of prudent and effective control which enables risk to be assessed and managed; to set the Group's strategic objectives; and to ensure that the necessary resources are made available so that those objectives can be met. The Board also sets the Group's values and standards and is responsible for ensuring that its obligations to shareholders and other stakeholders, including employees, suppliers, customers and the community, are understood and met.

The Board currently comprises two Executive Directors, a Non-Executive Chairman and five Non-Executive Directors. The names, biographical details and Committee memberships of the current Board members are set out on pages 38 and 39 of this report.

Division of responsibilities of the Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and the Chief Executive. Each role has its own formal written description of specific responsibilities.

The Chairman's principal responsibility is to lead the Board in the determination of its strategy and the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness by facilitating full and constructive contributions to the development and determination of the Group's strategy and its overall commercial objectives from each member of the Board. The Chairman ensures procedures and practices are in place for promoting the highest standards of integrity, probity and corporate governance throughout the Group. The Chairman manages the relationship with shareholders in relation to governance matters and regularly considers the composition and skillsets of the Board through evaluation. The Chairman sets the Board agenda and, with the Company Secretary, ensures that the Directors receive accurate and timely information prior to each meeting. At the Board and Committee meetings, thorough consideration and debate takes place relating to the issues to be addressed.

The Chief Executive is directly responsible for all executive management matters affecting the Group. His principal responsibility is ensuring achievement of the agreed strategic objectives and leadership of the business on a day-to-day basis. The Chief Executive is accountable to the Board for the financial and operational performance of the Group.

The role of the Non-Executive Directors

The Non-Executive Directors bring independence and a wide range of experience to the Board. Their role is to help develop strategy and to promote constructive debate and challenge in Board discussions. The Non-Executive Directors ensure that the financial controls and systems of risk management are robust and defensible.

The Senior Independent Director provides a sounding board for the Chairman and serves as an intermediary for the other Directors as necessary, as well as carrying out the evaluation of the Chairman. He also acts as a line of contact for shareholders if they have concerns which are not appropriate for discussions through the Chairman, Chief Executive or Group Finance Director.

The role of the Company Secretary

The Company Secretary advises the Board through the Chairman on all governance matters. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

Operation of the Board

The Board held six scheduled meetings during the fiscal year 2018 and there were eight telephone update calls between these meetings, together with a number of ad-hoc conference calls during the year to deal with matters as required. Attendance at each meeting is set out in the table on page 42. The Company Secretary was in attendance at all Board meetings as well as at all telephone updates and conference calls. The Board held its annual strategy meeting in London in January 2018.

The provision of relevant, up-to-date information is fundamental to the effective leadership delivered by the Board. Reports from the Executive Directors are circulated in advance of each Board meeting which focus on major operational matters. Reports are also produced by the Chief Operating Officer and the Company Secretary on relevant key business areas for each Board meeting. To ensure that the Directors are kept fully informed on the status of the business, presentations from the business units and other functions are delivered to the Board. During the year, overviews were presented by each member of the Executive Team. The Board also received presentations from senior managers on commercial and EHS matters as well as risks affecting the Group, and met with the Group's broker/NOMAD.

Corporate Governance
continued

Other business undertaken by the Board during the year includes; a review of the ongoing culture programme implemented throughout the Group to promote entrepreneurship and value creation; approval of the acquisition of Markel Industries; consideration of the acquisition of BioMed Laboratories LLC; approval of the annual budget; a review of governance issues affecting the Company; a review of the corporate structure of the Group; a review of the manufacturing footprint of the Group; succession planning; and assessment of the corporate risk map. Where appropriate, certain matters were delegated to a Committee of the Board.

Governance across the Group

All areas of the Group are required to meet high standards of governance and controls. The Group's operations are reviewed by the Executive Team through regular reports, meetings and presentations. The Group Risk & Assurance team performs regular audits of governance and control standards, reporting its findings to the Audit and Risk Committee of the Board.

MATTERS RESERVED FOR THE BOARD

In accordance with the Code, there is a formal schedule of matters reserved for the Board which is monitored by the Company Secretary and reviewed annually by the Board. Specific matters reserved for the Board include:

- approval (and ongoing review) of the Group's long-term objectives, strategy and operating policies
- approval of the Group's annual operating plan
- review of operational and financial performance
- approval of major acquisitions or disposals
- review of the Group's overall corporate governance arrangements
- approval of material contracts and contracts in or outside of the ordinary course of business
- review of dividend policy and declaration of interim dividends and recommendation to shareholders of final dividend
- appointment, reappointment or removal of the external auditor
- ensuring a sound system of internal control and risk management
- major changes to the Group's management and control system
- approval of global material policies including inter alia policies relating to Health & Safety, Corporate Social Responsibility, Anti-bribery and Anti-corruption, Modern Slavery and Human Trafficking
- undertaking a formal and rigorous annual review of its own performance, that of its Committees and individual directors
- appointment and removal of the Company Secretary

The Board delegates matters not reserved for the Board concerning the management of the Group's business to the Executive Team.

ATTENDANCE AT MEETINGS

The following table sets out attendance of each Director at Board meetings held during the year:

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings	6	4	4	4
Larry Pentz (Chairman)	6	4	4	4
Heejae Chae* (Group Chief Executive)	6	4	4	3
Graham Hardcastle* (Group Finance Director)	6	4	3	2
Richard Perry (Senior Independent Director)	5	3	3	3
Martin Sawkins (Non-Executive Director)	6	4	4	4
David Blackwood (Non-Executive Director)	6	4	4	4
Pierre Guyot** (Non-Executive Director)	2	1	1	1
Brendan McAtamney*** (Non-Executive Director)	1	1	1	0

* Although not members of the Committees, the Executive Directors may be invited to attend meetings of the Audit and Risk Committee, Remuneration Committee and Nomination Committee when considered appropriate

** Appointed 8 January 2018

*** Appointed 1 February 2018

BOARD EFFECTIVENESS

Composition and independence of the Board

During the year under review, the composition of the Board varied as a result of two new appointments but at all times the Board comprised a Chairman, two Executive Directors and at least three Non-Executive Directors.

Pierre Guyot joined the Board as an Independent Non-Executive Director with effect from 8 January 2018 and became a member of the Board's Audit and Risk, Remuneration, and Nomination Committees on his appointment. Pierre has over 30 years' experience in the international healthcare industry and is currently a Director of Permobil AB, Sweden, Peters Surgical SA, France and Limflow SA, France. From January 2014 until 31 December 2017, Pierre was a Director of Spineguard SA, France, and from 2007 to 2014, he was the Chief Executive Officer of Mölnlycke Health Care in Sweden. Prior to this, Pierre served in various roles in sales and marketing and EMEA positions with Becton Dickinson, Johnson & Johnson and Boston Scientific.

Brendan McAtamney joined the Board as an Independent Non-Executive Director with effect from 1 February 2018 and became a member of the Board's Audit and Risk, Remuneration, and Nomination Committees on his appointment. Brendan was appointed Chief Executive Officer of UDG Healthcare on 2 February 2016, having served as an Executive Director since December 2013, and having originally joined UDG as Chief Operating Officer in 2013. Prior to that, Brendan has held various senior management positions with Abbott, latterly as Vice President Commercial and Corporate Officer within its Established Pharmaceuticals Division.

Richard Perry, Senior Independent Non-Executive Director, having served on the Board since 2005, has indicated that he does not intend to offer himself for re-election at the 2018 AGM.

The Board considers all the Non-Executive Directors to be independent for the purposes of the Code. The Board acknowledges that Richard Perry has served more than nine years as a Non-Executive Director of the Company; however, Richard's knowledge, experience and judgement has always been valued and respected and at no time has the length of service impeded Richard's independent approach to his role.

The Chairman was independent for the purposes of the Code prior to appointment.

The skillsets and knowledge of the Non-Executive Directors are wide and varied and they provide constructive challenge in the Boardroom. The composition of the Board is intended to ensure that its membership represents a mix of backgrounds and experience that will optimise the quality of deliberations and decision-making. Diversity in the composition is considered to be an important factor in the effectiveness of the Board and, in searching for prospective Directors, the Board takes into account its existing skillsets and areas it has identified for development to meet future needs and address succession planning.

Board diversity

The Board recognises the importance of gender diversity throughout the Group and is committed to supporting women in achieving positions in senior management. Our Executive Team currently comprises eight positions, three of which are held by women. Further information on the total female representation in our workforce is set out on page 40 of this report and in the Sustainability Report on page 34.

We also recognise the importance of a Board diverse in all respects and our Board comprises members with a wide range of experience and backgrounds. In the selection process used for the appointment of the new Non-Executive Directors, the Board did consider female candidates. It is the Board's intention to recruit a further Non-Executive Director following Richard Perry's retirement and, in doing so, gender diversity will be a key factor. The Board's statement on Board diversity is set out on page 51 of this report and also in the Group Corporate Governance section of the Company's website (www.scapa.com). Further information on our HR policies is set out on page 67.

Subject to the Company's Articles of Association, the Companies Act 2006 and satisfactory performance, Non-Executive Directors are appointed for an initial term of three years. Before the third and sixth anniversaries of appointment, the Director discusses with the Board whether it is appropriate for them to serve a further term of three years. The appointment of any Non-Executive Director who has served more than nine years is subject to annual review by the Board. The letters of appointment for the Non-Executive Directors set out the number of days expected to be required to perform their duties. Additional time commitments are expected from those Non-Executive Directors who individually serve as the Chairman of any Committee of the Board.

Scapa recognises that Non-Executive Directors have other business interests outside the Company and that other directorships bring benefits to the Board. All existing directorships are included in the biographical details of the Directors on pages 38 and 39. Non-Executive Directors are required to obtain approval from the Chairman before accepting any further appointments.

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

Corporate Governance
continued

Election/re-election

As referred to above, Pierre Guyot was appointed to the Board on 8 January 2018 and Brendan McAtamney was appointed to the Board on 1 February 2018, both as Non-Executive Directors. Their appointments will be subject to formal approval by shareholders at the Annual General Meeting to be held on 17 July 2018. Richard Perry has indicated that he will not offer himself for re-election at the 2018 AGM. The Board has voluntarily adopted a policy that all Directors wishing to remain in post will propose themselves for re-election annually.

Further information on the appointment and replacement of Directors is provided in the Directors' Report on page 67.

Conflicts of interest

Under the Companies Act 2006, a Director must avoid a situation where a direct or indirect conflict of interest may occur. The Company has in place procedures to deal with any situation where a conflict may be perceived.

The Nomination Committee annually reviews and considers the interests and other external appointments held by the members of the Board. The Directors have a continuing duty to immediately inform the Board of any potential conflicts so that these may be considered. There is a formal register of conflicts in which any authorised conflicts of interest would be recorded. During the year, none of the Directors declared a conflict of interest.

The Board has considered the appointments of the Directors, details of which are included in their biographies on pages 38 and 39, and is satisfied that all Directors are able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

Board performance and evaluation

In accordance with the Code, the Board has established a formal process for the rigorous evaluation of the performance of the Board, its Committees and individual Directors on an annual basis. This year the evaluation was conducted internally using, as part of the process, a detailed questionnaire which covered; the balance of skills and experience of the Board; independence of Directors; diversity; and relations between the Executive Directors and Non-Executive Directors. The outcome was presented to the Board and discussed openly and fully at the March 2018 Board meeting. The overall assessment of the Board and each of its Committees and members was that the Board continues to function effectively to a high standard, with all members contributing fully and constructively. Areas which the Board should continue to focus on were identified, including strategic direction and structural options, Executive Team succession planning and risk and sustainability.

The Board considered using external consultants to facilitate the performance evaluation. It was felt that using an external facilitator this year would not be as beneficial as it could be, given the changes to the Board and processes. The Board will review using an external provider during the current period.

The Nomination Committee reviews the performance of the Executive Directors. The Chairman reviews the performance of the Non-Executive Directors and Board Committees, with the exception of Committees chaired by the Chairman. The Senior Independent Director reviews the performance of the Chairman and Committees chaired by the Chairman.

During the year, the Chairman met with the independent Non-Executive Directors without the Executive Directors present, and the Senior Independent Director met with the other Non-Executive Directors without the Chairman present.

Induction and training

On appointment, each Director takes part in an induction programme through which they are provided with comprehensive and up-to-date information about the Group and its business, 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 programme includes meetings with other Directors, the Executive Team and senior management members. In addition, each new Director is provided with guidance from the Company Secretary on the Group's corporate governance practices and procedures, regulatory obligations applicable to the Board and briefings on wider responsibilities on areas such as Directors' duties. The induction programme 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 environment, corporate social responsibility matters and other changes affecting the Group and the sectors in which the Group operates. The Board tries to visit different Group operations each year to help extend the breadth and depth of the Non-Executive Directors' understanding of the Group's business.

Training by external advisers is also provided to the Directors, to ensure that they are kept up to date with corporate governance best practice as well as legal and regulatory matters affecting the Group.

Information and support

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. Under the direction of the Chairman, the Company Secretary ensures good information flow which includes executive commentaries from the Chief Operating Officer, in addition to the reports from the Executive Directors and Company Secretary which are provided in advance of each Board meeting. The reports explain issues affecting the Group and how the Group's strategy is being implemented through current and future activities. The Board is provided with sufficient management information and reports on a timely basis and receives briefings by members of the Executive Team and senior management throughout the year to ensure that the Board is fully up-to-date and has a comprehensive understanding of the key issues concerning the Group.

Indemnification of Directors

Qualifying third party indemnity provisions, as defined in section 234 of the Companies Act 2006, are in force for the benefit of Directors who held office during the year. The Company maintains Directors and Officers liability insurance for the Group's Directors and Officers.

ACCOUNTABILITY

Financial and business reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. The statement setting out the reasons why the Board continues to adopt the going concern basis for preparing the financial statements is included in the Directors' Report on page 66.

Internal control system

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks to the achievement of Scapa's strategic objectives and this process was in place throughout the year under review and up to the date on which the Annual Report and Accounts were approved. The process accords with the Code and is regularly reviewed by the Board, through the Audit and Risk Committee, whose review of the effectiveness of the Group's risk management and internal control systems includes:

- a formal review of the Group's Risk Profile to assess potential risk areas and action plans to address these risks
- review of the strategic and annual internal audit plan
- review of the external audit strategy and plan
- review of the implementation of internal audit recommendations
- review and approval of the Group authority matrix
- review, on an annual basis, of Group policies in relation to whistleblowing, anti-bribery and corruption, and prevention of fraud

The Board, supported by the Audit and Risk Committee, is responsible for determining the nature and extent of the significant risks that the Group is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control procedures.

The Group's internal control system is designed to manage the risk of failure to achieve business objectives, rather than to eliminate that risk. Such systems can only provide reasonable, and not absolute, assurance against material misstatement or loss.

During the year there have been no significant failings, weaknesses, or any material internal control failures that have been identified and which require reporting in the 2017/18 Annual Report and Accounts.

COMMUNICATIONS WITH SHAREHOLDERS

At the Company's Annual General Meetings, all Directors are available to respond to questions from shareholders present. The Annual General Meeting provides a forum for constructive communication between the Board and shareholders. Throughout the year, the Executive Directors and the Chairman meet with investors to discuss matters relevant to the Company.

W BAKER
Company Secretary
22 May 2018

Report of the Audit and Risk Committee

DAVID BLACKWOOD
Chairman of the Audit and Risk Committee

DEAR SHAREHOLDER

The Audit and Risk Committee ('the Committee') report for the year ended 31 March 2018 is set out on the following pages 46 to 49. The Committee completed its work plan for the year and continuously reviewed internal control, risk, accounting policies and regulatory guidance.

There is nothing to bring to your attention as a result of the work plan. In summary, the Committee considers that it has delivered what it set out to do and has a clear plan for 2018/19. I, together with members of the Committee, will be available at the Annual General Meeting to respond to any questions on any of the Committee's activities.

AIMS AND OBJECTIVES

The overall aim of the Committee is to monitor the integrity of the Group's financial statements and announcements, its accounting processes, and the effectiveness of internal controls and risk management. The Committee assists the Board in fulfilling its responsibility to ensure that the Group's financial systems provide accurate and up-to-date information on its financial position, and supports the Board in its consideration as to whether the Group's published financial statements are fair, balanced and understandable.

COMPOSITION

I have been Chairman of the Committee since 1 June 2016, having joined the Company as a Non-Executive Director on 1 May 2016. I am also currently a Non-Executive Director and Chairman of the Audit Committee at Dignity PLC, where I am also the Senior Independent Director. I was previously Chief Financial Officer of Synthomer plc, a global specialty chemicals business. Prior to that I spent 22 years with ICI plc, where I held a number of senior financial roles. I have previously served on the Audit & Risk committee of the Cabinet Office, and as a member of the FRC's Board for Actuarial Standards. I am a Chartered Accountant (ICAEW) and a Fellow of the Association of Corporate Treasurers (FCT).

Larry Pentz, Richard Perry and Martin Sawkins were members of the Committee throughout the year under review. Larry has extensive international business experience and is a member of the Audit Committee of Victrex plc, where he is also Non-Executive Chairman. Richard is a qualified accountant and has substantial experience of risk management, governance and internal control in his Executive and Non-Executive directorships in manufacturing organisations. Martin has substantial experience in both HR and business operations across the manufacturing and services industries and also holds a Non-Executive directorship at Wincanton plc, where he is also a member of its Audit Committee. Martin is also currently a Non-Executive Director at Africa Exclusive Ltd.

In addition to the above, we welcomed two new members to the Committee during the year; Pierre Guyot joined the Committee on 8 January 2018 and Brendan McAtamney joined the Committee on 1 February 2018. Pierre has over 30 years' experience in the international healthcare industry and is currently a Director of Permobil AB, Sweden, Peters Surgical SA, France, and Limflow SA, France. He was previously Chief Executive Officer of Mölnlycke Health Care in Sweden. Brendan is currently Chief Executive Officer of UDG Healthcare, where he has served as an Executive Director since December 2013, having originally joined UDG as Chief Operations Officer in 2013. Both Pierre and Brendan have wide-ranging business experience and critical sector knowledge giving deeper insight into the risks relating to the Healthcare business.

This relevant experience allows the members to:

- understand the risks facing a global manufacturing company and approaches to managing its risks
- maintain an oversight of the Group's internal control environment through the internal audit plan and risk management framework
- review strategic financial management in a global manufacturing company, provide constructive challenge to the reports and assurances given by management, and guide the design and implementation of a suitable assurance framework
- ensure overall external audit efficiency, including capturing control improvement and minimising duplication of assurance work
- provide practical insights on the Group's approach to corporate governance

The Company Secretary acts as the secretary to the Committee.

MEETING FREQUENCY AND ATTENDANCE

The Committee is scheduled to meet at least three times per year.

Member	No. of meetings attended
D C Blackwood	4/4
L C Pentz	4/4
R J Perry	3/4
M T Sawkins	4/4
P Guyot*	1/1
B McAtamney**	1/1

* Appointed 8 January 2018
** Appointed 1 February 2018

AUDIT AND RISK COMMITTEE ACTIVITIES

In order to discharge its responsibilities, during the year, the Committee has undertaken the following activities:

FINANCIAL STATEMENTS AND REPORTS

- Reviewed and discussed changes to the UK Corporate Governance framework and its impact on reporting requirements
- Reviewed the interim accounts and related statements and discussed:
  - key accounting judgements
  - Income Statement for the half year, specifically revenue, trading profit and foreign exchange
- Reviewed and considered the significant issues in relation to the financial statements and how these have been addressed, including:
  - **Viability statement** – The 2016 UK Corporate Governance Code provision C.2.2 has set out a requirement for the Directors to explain in the Annual Report how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate. The Committee reviews the analysis undertaken in relation to strategic risk management and risk assessment, risk appetite, internal control, risk and control reporting structure and the principal risks identified on an ongoing basis. This monitoring and review informs the statement which is documented annually.
  - **Pension liabilities** – The Group has a material defined benefit pension scheme deficit in the UK and smaller schemes in the US and Europe. Small changes to the assumptions used to value the retirement benefit obligations can have a significant impact on the financial position of the Group. The Committee reviews the assumptions put forward by the actuaries and reviews their reasonableness. The Committee reviews the assumptions by comparison to external benchmark data and also considers the adequacy of disclosures in respect of the sensitivity of the deficit to changes in these key assumptions.
  - **Inventory valuation** – Inventory is a significant item on the Balance Sheet and therefore exposes the Group to risks around valuation and existence. The Committee reviews the year end reports on inventory with particular focus on the level of provisioning and the results from the annual stock-takes. The Committee reviews the analysis of stock write-offs throughout the year.
  - **Exceptional items** – The Committee received reports and challenged the basis and completeness of information. In particular, the Committee considered the nature of the items and determined whether separate disclosure was appropriate or not. The Committee discussed with management the key judgements behind all the exceptional items and agreed with their recommendations.
  - **Acquisition and fair value accounting** – Valuing and assessing the assets procured as part of the acquisition of Markel Industries and BioMed Laboratories LLC involved assumptions around the values and cash flows of both tangible and intangible assets. The Committee reviewed the fair value assumptions and discussed the reasonableness of the conclusions with senior management and the auditors.
  - **Carrying value of goodwill, intangible and fixed assets** – The Committee receives an annual update on the impairment reviews based on the recoverability determined on a value in use basis on each cash-generating unit (CGU) using the management approved forecasts for each CGU within the Group.
- Reviewed the Annual Report and related statements and auditor's report for 2017/18 to ensure that the report is fair, balanced and understandable.

EXTERNAL AUDIT

- Monitored and ensured the independence and objectivity of the external auditor
- Reviewed and approved the external audit fees for 2017/18
- Approved all non-audit service work exceeding £10,000
- Reviewed and approved the scope and methodology of the external audit strategy for 2017/18
- Reviewed the performance of the external auditor and considered the reappointment of Deloitte LLP as auditor for 2017/18 and recommended their re-appointment to the Board

INTERNAL AUDIT

- Evaluated the adequacy of the strategic and annual internal audit plan
- Reviewed and followed up, where appropriate, management responses to internal audit findings and recommendations raised during the year
- Reviewed and approved the Group Risk & Assurance team resourcing including the co-source provision and associated costs
- Reviewed the performance of internal audit
- Performed an ongoing review of compliance with the Group's processes to prevent and detect bribery and corruption

RISK MANAGEMENT

- Reviewed the key risks (financial and operational) facing the Group and the ongoing development and implementation of action plans to mitigate these risks
- Reported to the Board on how it has discharged its responsibilities
- Reviewed and approved the Group's insurance coverage

Report of the Audit and Risk Committee
continued

Others who are invited to attend meetings of the Committee:

- External Audit – Deloitte LLP
- Head of Group Risk & Assurance
- Group Chief Executive
- Group Finance Director
- Group Financial Controller

The Committee's full Terms of Reference can be found in the Group Corporate Governance section of the Company's website (www.scapa.com).

The Committee's Terms of Reference are reviewed annually. This year's review was conducted in line with the Institute of Chartered Secretaries and Administrators (ICSA) guidance to reflect the UK Governance Code.

In summary, the Committee is required to:

- advise the Board on the Group's overall risk appetite, tolerance and strategy taking account of the current and prospective macroeconomic and financial environment and other authoritative sources that may be relevant for the Group's risk policies
- oversee and advise the Board on the current risk exposures of the Company and related future risk strategies
- oversee the activities of internal audit
- review internal control policies and procedures for the identification, assessment and reporting of material financial and non-financial risks
- review reports on any material breaches of risk limits and the adequacy of proposed actions
- review the Group's procedures for detecting fraud
- review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance
- review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters
- review the effectiveness of the Group's financial reporting

EXTERNAL AUDIT

Effectiveness

To assess the effectiveness of our external auditor, a formal performance review is undertaken on an annual basis to identify the adequacy of their approach to the following:

Audit staffing – it is important that the external auditor has achieved the right balance of audit team resource. While they should be providing team continuity and knowledge, they should also be providing a fresh perspective through new team members to enable the current audit processes and accounting policies to be challenged.

Effective communication – is key to obtaining the highest quality audit service from our external auditor and includes:

- communicating key audit judgements at the earliest opportunity to promote discussion and challenge between themselves and management
- informing Scapa of audit issues as they arise, so that these can be dealt with in a timely manner
- in-year communication regarding good practice, changes to reporting requirements and accounting standards to enable Scapa to be prepared prior to year end
- timely provision of Audit and Risk Committee papers to enable adequate management review and feedback
- quality of the reports and publications provided by the external auditor in terms of content, relevance and presentation

Scoping and planning – specifically relating to the year end audit work:

- consultation with stakeholders including Group and local finance teams, local warehouse teams, Group Risk & Assurance and the Audit and Risk Committee
- timely provision of the external audit strategy and timetable to stakeholders
- transparency in the communication and management of changes to the external audit plan and related timings

Fees – are transparent and communicated prior to the commencement of any work undertaken. Where variations occur, these are informed at the earliest opportunity to enable dialogue and negotiation to be undertaken.

INTERNAL AUDIT

Responsibilities

Internal audit at Scapa is managed and delivered by the Group Risk & Assurance team, assisted by outsourced and temporary resources as required. Against an agreed mandate, this function performs independent internal audits and facilitates standardised and structured risk assessment across the Group. Specialist internal audits are conducted by experts (in-house and outsourced) under the direction and management of the Head of Group Risk & Assurance.

In line with the Group's Internal Audit Charter, a three-year internal audit strategy and an annual internal audit plan are approved by the Committee each year. These target the most significant areas of risk to provide assurance that key controls are effectively designed and consistently operated. Audit reports are produced to convey the extent of control assurance derived from the formal testing of controls. In providing independent good practice guidance, the Group Risk & Assurance team assists the business in the continuous improvement of controls and procedures.

Yearly summary reports are presented by the Group Risk & Assurance team to the Committee to convey:

- an up-to-date view of the Group's risk profile
- details of internal audits undertaken during the period
- an overall assessment of the Group's control environment
- the status of management actions arising from the risk management and internal assurance processes

The Head of Group Risk & Assurance is accountable to the Committee and has access to the Committee and its Chairman at any time during the year. As a matter of course, the Head of Group Risk & Assurance meets with the Chairman of the Committee independently of management.

The Group Risk & Assurance team has no operational responsibility or authority over any of the activities it has reviewed during the year, nor has the team designed the control frameworks in place. The Group Risk & Assurance team members do not hold shares in the Company. This ensures that the team is sufficiently objective and independent of the areas under review to avoid prejudice and conflicts of interest.

EXTERNAL AUDIT GOVERNANCE

Auditor independence

The Committee continues to monitor the external auditor's compliance with applicable ethical guidance and guidelines and considers the independence and objectivity of the external auditor as part of the Committee's duties. The Committee received and reviewed written confirmation from the external auditor on all relationships that, in their judgement, may bear on their independence. The external auditor has also confirmed that they consider themselves independent within the meaning of UK regulatory and professional requirements.

In all services purchased, the Group selects the provider best placed to deliver the work in terms of quality and cost. As a general principle the external auditor is excluded from consultancy work and other non-audit work. However, there may be occasions when it is appropriate to use our external auditor for non-audit services and this will be reviewed on an individual basis and allocated according to merit.

The external auditor may be appointed to provide non-audit services where it is in the Group's best interests to do so, provided a number of criteria are met. These are that the external auditor does not:

- audit their own work
- make management decisions for the Group
- create a conflict of interest
- find themselves in the role of an advocate for the Group

Non-audit services for up to £10,000, which comply with the above criteria, may be provided by the external auditor with authorisation in advance by the Group Finance Director.

All projects where forecasted expenditure exceeded £10,000 were approved by the Audit and Risk Committee.

Tendering policy and review of auditor effectiveness

Deloitte LLP was appointed as the Group's external auditor in 2011 after a competitive tendering exercise and has been the Group's external auditor for seven financial years. The current engagement partner, Christopher Robertson, has been in place for less than two years.

Following the positive outcome of a performance and effectiveness evaluation undertaken by the management, the Committee concluded that it was appropriate to recommend to the Board the reappointment of Deloitte LLP as the Group's external auditor for the next financial year.

D C BLACKWOOD
Chairman of the Audit and Risk Committee
22 May 2018

Report of the Nomination Committee

LARRY PENTZ
Chairman of the Nomination Committee

DEAR SHAREHOLDER

The Report of the Nomination Committee ('the Committee') for the year ended 31 March 2018 is set out below.

AIMS AND OBJECTIVES

The Committee is responsible for ensuring the Company maintains the appropriate balance of skills and experience and has the right leadership in place to deliver the Group's strategic objectives. The aims and objectives of the Committee are set out in the Committee's Terms of Reference which can be found in the Group Corporate Governance section on the Company's website (www.scapa.com).

In summary, the role and responsibilities of the Committee are to:

- review the Board structure, size, composition and diversity, and make recommendations to the Board with regard to potential changes
- seek the appointment of Directors with the appropriate mix of skills, knowledge and experience that the Board requires to ensure that it is effective in discharging its responsibilities
- review its own performance, constitution and Terms of Reference to ensure that it is operating at maximum effectiveness
- review the election or re-election of Directors at each Annual General Meeting
- meet at least twice yearly and on an ad hoc basis as required and be responsible for the nomination, for approval by the Board, of candidates for appointment to the Board
- give full consideration to succession planning for Directors and other senior executives
- review the time commitments required from the Directors to ensure they are able to fulfil their duties

COMPOSITION

I have been Chairman of the Committee since 31 March 2017. The other members of the Committee are Richard Perry (Senior Independent Director), Martin Sawkins (Non-Executive Director), David Blackwood (Non-Executive Director), Pierre Guyot (Non-Executive Director) and Brendan McAtamney (Non-Executive Director). The Company Secretary acts as secretary to the Committee.

Biographical details of all Committee members can be found on pages 38 and 39 of this Report and also in the Group Board of Directors section on the Company's website (www.scapa.com).

The Terms and Conditions of appointment of the Directors, including the expected time commitment, can be inspected at the Company's registered office during normal working hours.

MEETING FREQUENCY AND ATTENDANCE

The Committee is scheduled to meet at least twice each year, with other meetings taking place on an ad hoc basis as required. Only members of the Committee have the right to attend Committee meetings; however, other individuals such as the Group Chief Executive, the Group HR Director and external advisers may be invited to attend for all or any part of the meeting as and when appropriate. The Committee met four times during the year under review.

Member	No. of meetings attended
L C Pentz	4/4
R J Perry	3/4
M T Sawkins	4/4
D C Blackwood	4/4
P Guyot*	1/1
B McAtamney**	0/0

* Appointed 8 January 2018
** Appointed 1 February 2018

SUCCESSION PLANNING

During the year, the Committee once again focused on Board succession and composition. A formal and extensive recruitment process was undertaken with independent executive search firm, Korn Ferry, to identify potential candidates for the role of Non-Executive Director. As part of this process, the Board applied its diversity policy and considered a number of candidates, including female candidates, from a wide variety of relevant backgrounds. The search culminated in the appointment to the Board of two Non-Executive Directors; Pierre Guyot with effect from 8 January 2018, and Brendan McAtamney with effect from 1 February 2018. Both appointees became members of the Audit and Risk, Remuneration, and Nomination Committees upon their respective appointments. The biographical details of Pierre and Brendan can be found on page 39 of this report and resolutions for their election as Directors will be proposed to shareholders at the Annual General Meeting in July 2018.

In accordance with good governance, and following a recommendation by the Committee, all Directors submit themselves for election or re-election at the AGM following their appointment and thereafter

NOMINATION COMMITTEE ACTIVITIES

In the year ended 31 March 2018 and up to the date of this report, the Committee met and considered the following:

- The outcome of the annual evaluation of the Board's and Board Committees' effectiveness
- Succession planning of Non-Executive Directors which resulted in the nominations and appointments of Pierre Guyot and Brendan McAtamney
- Executive and senior talent succession planning and strategy
- The independence of the Non-Executive Directors
- The extension of Richard Perry's letter of appointment to the conclusion of the 2018 AGM, when Richard intends to retire as a Non-Executive Director
- The existing terms of the Committee's Terms of Reference which are reviewed on an annual basis. This year's review culminated in a number of small changes to the Terms of Reference to reflect recommended practices, the majority of which were already applied, and the Committee has determined that they remain in line with current guidelines from ICSA. These will continue to be reviewed in the event of any changes in best practice or legislation
- The Board Diversity Policy adopted by the Board in January 2014 and amended in March 2017. There were no proposed changes to the Policy during the year, with the Committee determining that it remains appropriate for the Company. The Policy is set out below and a copy is located in the Group Corporate Governance section on the Company's website (www.scapa.com)

annually for re-election. As previously announced, Richard Perry has indicated he will not be offering himself for re-election at the July 2018 AGM. Following the AGM and subject to his re-election, David Blackwood will be appointed Senior Independent Director with immediate effect.

In the coming year the Committee will continue to monitor the composition and effectiveness of the Board and Committees of the Company, and keep abreast of developments in corporate governance to ensure that it continues to act in accordance with good governance practice.

BOARD DIVERSITY POLICY

The following is the Board's statement on diversity, which can also be found in the Group Corporate Governance section on the Company's website (www.scapa.com):

"The Board recognises the importance of diversity in its broadest sense in the Boardroom as an essential element in maintaining Board effectiveness and a competitive advantage.

Diversity of skills, background, knowledge, international and industry experience, and gender will be taken into consideration when seeking to make new appointments to the Board and its Committees.
All appointments will be made on merit, taking into account suitability for the role, composition and balance of the Board to ensure that the Company has the appropriate mix of skills, experience, independence and knowledge.

The Board will consider suitably qualified applicants for Non-Executive Director roles from as wide a range as possible, with no restrictions on age, gender, religion, ethnic background or current executive employment, but whose competencies and knowledge will enhance the Board. Independence and the ability to fulfil time commitments required will also be taken into account.

The Board will ensure that procedures are in place for orderly succession to the Board so as to maintain the correct balance and to ensure ongoing progression."

L C PENTZ
Chairman of the Nomination Committee
22 May 2018

Report of the Remuneration Committee

MARTIN SAWKINS
Chairman of the Remuneration Committee

This report sets out the activities of the Remuneration Committee ('the Committee') for the year ended 31 March 2018. The report sets out the Directors' Remuneration Policy ('the Policy') and remuneration details for Scapa's Executive and Non-Executive Directors, and has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013, which the Company has voluntarily chosen to follow.

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2018.

OUR STRATEGY

Our continued success has been shaped by maintaining a disciplined approach in executing our strategy to create a balanced portfolio of businesses in our chosen markets of Healthcare and Industrial; to develop and leverage strategic relationships with global market leaders; expand scale and scope through acquisitions; and continue to focus on efficiency improvement and cost control.

EXECUTIVE REMUNERATION AND LINK TO STRATEGY

In 2017, we voluntarily sought and obtained shareholder reapproval for the Directors' Remuneration Policy, which was originally approved in 2014. The Policy focuses on rewarding superior and sustained performance. It is our belief that executives should be rewarded on the basis of their individual performance and the value created for shareholders. Variable elements of pay are therefore focused on simple and transparent measures of key strategic objectives, operating profit, EPS growth and sustainable growth in shareholder value. Bonus and long-term incentive scheme targets are purposely designed to be challenging and drive the long-term success of the Group.

REMUNERATION OUTCOMES OF 2018

Full details of the decisions of the Committee made in 2018 are set out in the Directors' Annual Remuneration Report on pages 59 to 65. The Group reported pleasing results, achieving £34.5m trading profit on revenue of £291.5m, and continuing year-on-year growth since 2010 under the direction of the CEO and the Executive Team. Trading profit margin improved to 11.8% and adjusted EPS increased to 18.2p.

The Committee agreed to increase the salary of the Chief Executive to £453,000 (a 2.95% increase) with effect from 1 January 2018. This increase is in line with the projected general workforce increase for 2018.

The annual bonus targets for the Executive Directors and Executive Team were set by the Committee at the beginning of the financial year. The Executive Directors will receive an annual bonus equivalent to 60% of salary for 2018.

The Committee has also reviewed the Company's EPS growth over the three-year period ended 31 March 2018 to establish whether the performance criteria for vesting of awards made under the Company's Performance Share Plan in 2015 had been achieved. The adjusted EPS growth over the three-year performance measurement period exceeded the target for 100% vesting and the awards will vest in full.

The first tranche of the Value Creation Plan ('VCP') established for the Executive Directors and Executive Team has vested, with the gateway share price of £3.00 having been exceeded. Pursuant to the VCP rules, the vested amount will subsequently be reduced by amounts vesting under the PSP Schemes in financial years 2018 and 2019 respectively.

The Company's share price over the three-year measurement period rose from 144.0p to 490.8p and market capitalisation grew from £212.0m to £753.9m, with £7.8m returned to shareholders by way of dividend.

COMPOSITION

I have been Chairman of the Committee since my appointment to the Board as a Non-Executive Director on 1 January 2015. The other members of the Committee are Larry Pentz (Group Chairman), Richard Perry (Senior Independent Director), David Blackwood (Non-Executive Director), Pierre Guyot (Non-Executive Director) and Brendan McAtamney (Non-Executive Director). The Company Secretary acts as secretary to the Committee.

Biographical details of all Committee members can be found on pages 38 and 39 of this Report and also in the Group Board of Directors section on the Company's website (www.scapa.com).

REMUNERATION COMMITTEE ACTIVITIES

During the year under review, the Committee met on four occasions and all members were present at each meeting. The Committee took advice from Deloitte LLP on executive pay and benchmarking. The key activities of the Committee during the year were:

- Review of the Directors' Remuneration Policy
- Consideration of the levels of pay and benefits for the Executive Directors and Executive Team
- Consideration and approval of appointment and exit terms for Senior Executives
- Agreement on the executive bonus arrangements and targets for the year
- Review of Corporate Governance developments in the area of executive remuneration
- Measurement and monitoring of unvested LTIP awards
- Assessment of performance targets and outcome against annual bonus and LTIP targets for the Executive Directors and Executive Team
- Consideration of VCP vesting

MEETING FREQUENCY AND ATTENDANCE

The Committee is scheduled to meet at least three times each year, with other meetings taking place on an ad hoc basis as required. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Group Chief Executive, the Group HR Director and external advisers may be invited to attend for all or part of any meetings, as and when appropriate and necessary.

Member	No. of meetings attended
M T Sawkins	4/4
L C Pentz	4/4
R J Perry	3/4
D C Blackwood	4/4
P Guyot*	1/1
B McAtamney**	1/1

* Appointed 8 January 2018
** Appointed 1 February 2018

TRANSPARENCY IN DISCLOSURE

The Committee seeks to operate in a clear and transparent manner and to demonstrate good practice in executive remuneration.

The Committee's report comprises three sections, namely:

- This statement, which sets out a summary of and explains the major decisions on Directors' remuneration
- The Directors' Remuneration Policy
- The Directors' Annual Remuneration Report, which provides details on how the Policy will operate in the forthcoming year and states the remuneration earned by the Directors in the year to 31 March 2018

Although as an AIM listed Company, Scapa is not required to have a Policy, this was introduced and approved by 99.75% of shareholders at the 2014 Annual General Meeting and reapproved by 94.2% of shareholders at the 2017 Annual General Meeting.

The Directors' Annual Remuneration Report will be subject to an advisory vote by shareholders at the 2018 Annual General Meeting. As Chairman of the Committee, I will be available to respond to any questions you may wish to raise on any of the Committee's activities.

M T SAWKINS
Chairman of the Remuneration Committee
22 May 2018

Directors' Remuneration Policy

REMUNERATION PRINCIPLES FOR EXECUTIVE DIRECTORS

The main principles of the senior executive remuneration policy are set out below:

- Attract and retain high calibre executives in a competitive international market, and remunerate executives fairly and responsibly
- Motivate delivery of key business strategies and encourage a strong performance-oriented culture
- Reward achievement of stretching targets over the short and long-term
- Support both near-term and long-term success and sustainable shareholder value
- Align the business strategy and achievement of planned business objectives
- Be compatible with the Company's risk policies and systems
- Ensure that a significant proportion of remuneration is performance-related
- Link maximum payout to outstanding performance
- Take into consideration the views of shareholders and best practice guidelines, as they apply to Scapa, taking into account its AIM listing

Fixed remuneration comprises salary, pension contribution and benefits. Variable pay includes annual bonus, LTIP awards and the Value Creation Plan. Together, fixed and variable remuneration comprise total remuneration for the Executive Directors. The Committee recognises that it may be necessary on occasion to use its discretion to make remuneration decisions outside the standard remuneration policy, such as agreeing a sign-on payment, to attract and retain particular individuals.

COMPONENTS OF REMUNERATION

SALARY

Purpose	Operation	Maximum Opportunity	Performance Measures
Attract and retain the right calibre of senior executive required to support the long-term success of the business. Provide the basis for a competitive remuneration package.	Salaries are usually determined by reference to market data. Reflects individual experience, skills and role. Paid monthly. Reviewed annually by the Remuneration Committee, with any changes normally becoming effective on 1 January for the Chief Executive and 1 June for the Group Finance Director.	Increases will be made at the discretion of the Committee to take account of individual circumstances such as: • increase in responsibility • development and performance in the role • alignment to market level • increases given to all Scapa employees	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually.

PENSION

Purpose	Operation	Maximum Opportunity	Performance Measures
Provide a market competitive level of pension provision and allow Executive Directors to build long-term retirement savings.	Defined contribution based on a percentage of salary. The rate of contribution for Executive Directors exceeds the rates for the broader employee population; this reflects market practice for senior executives. The rate of contribution for any new Executive Director is benchmarked at the date of appointment. Directors may elect to take all or part of their pension contribution as a cash supplement.	Chief Executive – 20% of salary. Group Finance Director – 20% of salary. No element other than salary is pensionable.	None. Pension contribution is set at commencement of an individual's contract.

BENEFITS

Purpose	Operation	Maximum Opportunity	Performance Measures
Protect against risks and provide other benefits reflecting the international aspects of Executive Directors' roles.	Current benefits include a car allowance paid monthly, private medical insurance in the UK, permanent health insurance and life assurance cover. Other benefits may be paid if the Committee considers it appropriate. The Chief Executive participates in a US contributory private medical insurance plan.	Set at a level which the Remuneration Committee considers is appropriate taking into account comparable roles in companies of a similar size and complexity, and provides a sufficient level of benefit based on the role.	None.

ANNUAL BONUS

Purpose	Operation	Maximum Opportunity	Performance Measures
Provide a direct link between measurable individual performance and rewards. Encourage the achievement of outstanding results aligned to the business strategy and achievement of planned business objectives.	Individual bonus decisions are based on Executive Directors' performance during the year, measured against Group and personal objectives. Performance measures may include both quantitative and qualitative, and both financial and non-financial. Bonus awards are made by the Committee following discussions with the Chairman (for the Chief Executive's bonus) and the Chief Executive (for the Group Finance Director's bonus). Bonus awards are paid in cash or, at the discretion of the Committee, as a combination of cash and shares, after the results of the Group are audited. The Committee may elect to satisfy a part of the bonus in shares and match the number of shares received. Any shares issued in satisfaction of bonus shall be held for a minimum period as the Remuneration Committee specifies.	The value of any annual bonus is limited to a percentage of salary. The current maximum percentage is 150% for both the Chief Executive and the Group Finance Director if exceptional outperformance of targets is achieved.	Performance is assessed using specific metrics set by the Remuneration Committee, which may include Group Trading Profit improvement. The measures and targets are set by the Committee each year. The measures that apply are set out in the relevant Directors' Annual Remuneration Report. Measures for future years will be described in the Directors' Annual Remuneration Report for the relevant year.

Directors' Remuneration Policy
continued

LONG-TERM INCENTIVE PLAN AWARD

Purpose	Operation	Maximum Opportunity	Performance Measures
Reward execution of Scapa's strategy and growth in shareholder value over a multiple-year period. Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours, and encourages Executive Directors and Senior Executives to take a long-term view by aligning their interests with those of shareholders. The LTIP is designed to retain Executive Directors and Senior Executives over the performance period of the awards.	LTIP awards are made by the Committee following discussion of recommendations made by the Chairman (for the Chief Executive's award) and the Chief Executive (for the Group Finance Director's and Senior Executives' awards). Achievement of stretching performance measures determines whether and to what extent LTIP awards will vest. Awards vest three years after the date of the award, subject to achievement of performance criteria. At vesting, the LTIP awards are satisfied in Scapa shares. Awards will typically lapse on termination of employment, although the Committee may determine that awards may vest after termination of employment, in accordance with the plan rules and taking into account performance during the date of grant and date of termination of employment. In the event of a change of control of the Company, awards shall vest and be exercisable.	Awards are made as a percentage of salary up to a maximum of 200%. In the absence of exceptional circumstances which the Committee considers warrant additional levels of award, the PSP awards will be granted at not more than 100% of salary each year. The Committee has discretion to award additional shares (or equivalent cash amount) to reflect the value of dividend paid on some or all of the shares vesting up to the end of the performance period.	Performance is assessed against delivery of long-term financial performance. Existing awards vest against growth in EPS. Alternative or additional criteria may be used to determine future rewards.

VALUE CREATION PLAN

Purpose	Operation	Maximum Opportunity	Performance Measures
Reward the Executive Directors and other Senior Executives to create exceptional and sustainable increases in shareholder value during the five-year period to 31 March 2020.	Awards are made by the Committee to the Executive Directors and Executive Team. Awards may vest before March 2020 in certain circumstances in accordance with the rules of the VCP in the event of a change of control, other relevant corporate event or in certain 'good leaver' circumstances. The Committee has discretion to operate the VCP in accordance with its rules as approved by shareholders.	Participants will share 5% of the increase in value created for shareholders above a share price of £1.95 up to a share price of £5.00. The Committee has discretion to award additional shares (or an equivalent cash amount) to reflect the value of dividends paid on some or all of the vested shares up until the release date.	Share price growth, measured on 31 March 2018 and 31 March 2020 using the average closing price in the 30 days commencing on the Measurement Date. Where an award vests early as a result of a change of control, other relevant corporate event or in 'good leaver' circumstances, the growth in share price will be measured in accordance with the VCP rules.

SAYE SCHEME

Purpose	Operation	Maximum Opportunity	Performance Measures
Reward execution of Scapa's strategy and growth in shareholder value over a multiple-year period.	UK employees are eligible to join this savings related share option scheme, which is an HM Revenue and Customs tax favoured scheme. The Company grants each participant an option to subscribe for Scapa shares at an option price per share which is set at the commencement of the scheme. The option price is at a discount to the market price on the date of grant. On a change of control of the Company, options shall be exercisable.	Participation limits are set by HM Revenue and Customs. Although the participation limit on SAYE schemes has been increased to £500 per month, the limit applicable to the current Scapa SAYE scheme is £250 per month. The Committee may adjust the maximum to reflect HMRC saving limits.	None.

CHAIRMAN AND NON-EXECUTIVE DIRECTOR FEES

Purpose	Operation	Maximum Opportunity	Performance Measures
Provide an appropriate reward to attract and retain high calibre individuals. Neither the Chairman nor any of the Non-Executive Directors are entitled to a bonus or benefits and their fees are not performance related.	The fee for the Chairman reflects the level of commitment and responsibility of the role. The fee is paid monthly in cash and is inclusive of all Committee roles. Non-Executive Directors' fees are set at a level which ensures that the Company can attract and retain individuals with the required skills, experience and knowledge to enable the Board effectively to carry out its duties. Non-Executive Directors' remuneration comprises a base fee together with an additional fee for chairing one or more Board Committees and a further fee for the role of Senior Independent Director. The Chairman and Non-Executive Directors are entitled to reimbursement of reasonable expenses.	Set at a level which reflects the commitment and contribution expected from the Chairman and Non-Executive Directors, and is appropriately positioned against comparable roles in companies of a similar size and complexity. Fees are benchmarked externally from time to time, as appropriate. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.

Directors' Remuneration Policy continued

RECRUITMENT REMUNERATION ARRANGEMENTS

When recruiting a new Executive Director, whether from within the organisation or externally, the Committee will take into consideration all relevant factors to ensure that remuneration arrangements are in the best interests of the Company and its shareholders without paying more than is necessary to recruit an executive of the required calibre. The Committee will seek to align the remuneration package offered with the remuneration policy outlined above, but retains discretion to make proposals on hiring which are outside the standard policy. The Committee may make awards on appointing an Executive Director to compensate for remuneration arrangements forfeited on leaving the previous employer. In doing so, the Committee will consider all factors relevant to the forfeited arrangements, such as the nature of the remuneration forfeited, any performance conditions and time periods over which they would have vested, and any compensatory awards will be on a comparable basis.

DIRECTOR SHAREHOLDING GUIDELINES

All Executive Directors are expected to build up over a reasonable period from appointment, and hold, a minimum level of shareholding in the Company equal to one year's salary. Non-Executive Directors are expected to build up and hold a material level of shareholding within a reasonable period of appointment. This is considered an effective way to align the interests of the Directors and shareholders over the long term.

EXECUTIVE DIRECTOR SERVICE CONTRACTS AND TERMINATION PAYMENTS

Scapa's Executive Director service contracts entitle the Executive Directors to the fixed elements of remuneration and to consideration for variable remuneration each year. The contracts are terminable by the Company on not more than 12 months' written notice. The Company may terminate an Executive Director's contract immediately with payments in lieu of notice of between six to 12 months' salary plus contractual entitlements. There are no express provisions for compensation payable on early termination of an Executive Director's contract as at the date of termination other than as set out above and any awards made may be pro-rated for time and performance and payable on the usual payment dates. The Committee will seek to mitigate the cost to the Company while dealing fairly with each individual case. The Company may contribute to the reasonable legal fees of a Director in relation to any agreement to cease employment.

It is the policy of the Company that all executive appointments to the Board will have contractual notice periods no longer than 12 months.

EXTERNAL APPOINTMENTS

It is the policy of the Company, which is reflected in the contract of employment, that no Executive Director may accept any Non-Executive directorships or other appointments without the prior approval of the Board. Any outside appointments are considered by the Nomination Committee or the Board to ensure that they would not give rise to a conflict of interest. It is the Company's policy that remuneration earned from any such appointment may be retained by the individual Executive Director.

REMUNERATION POLICY FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and other Non-Executive Directors are appointed under a letter of appointment for an initial term of three years, subject to earlier termination by either party upon written notice. In each case, the letter of appointment may be extended by mutual consent. The Chairman and the Non-Executive Directors are not contractually entitled to termination payments. The letters of appointment cover such matters as duties, time commitment and other business interests.

The Remuneration Committee determines the remuneration for the Chairman and Executive Directors within the limits set in the Company's Articles of Association.

The remuneration of the Non-Executive Directors is a matter reserved for the Executive Directors of the Board.

The fee for the Chairman's role takes into account the time commitment required for the role, the skills and experience of the individual and market practice in comparable companies. The Chairman's fee is currently set at £125,000 per annum.

The Non-Executive Director fees policy is to pay a basic fee for membership of the Board, with additional fees for the Senior Independent Director and chairmanship of a Committee to take into account the additional responsibilities and time commitments of these roles. The Non-Executive Directors' fee structure was reviewed during the year by the Board and the following fee structure was implemented with effect from 1 January 2018:

- Basic fee – £42,000
- Committee Chairman fee – £6,000
- Senior Independent Director fee – £3,000

This fee structure remains in place with effect from 1 May 2018.

Directors' Annual Remuneration Report

Where indicated, the information provided in the following pages of this report has been audited by Deloitte LLP.

SINGLE FIGURE FOR TOTAL REMUNERATION (AUDITED INFORMATION)

The following table sets out the single figure for total remuneration for Directors for the financial years ended 31 March 2017 and 2018:

	Salary/fees £'000		Benefits[1] £'000		Bonus £'000		PSP awards £'000		Pension £'000		Total £'000	
Director	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Executive Directors												
H R Chae	**443,250**	412,175	**27,048**	27,158	**265,950**	412,175	**1,530,240**	2,538,938	**88,650**	82,435	**2,355,138**	3,472,881
G S Hardcastle	**249,167**	245,000	**10,938**	10,956	**149,500**	245,000	**–**	–	**49,833**	49,000	**459,438**	549,956
P Edwards[2]	**–**	140,998	**–**	7,019	**–**	–	**–**	669,869	**–**	28,200	**–**	846,086
Non-Executive Directors												
L C Pentz[3]	**125,000**	31,250	**–**	–	**–**	–	**–**	–	**–**	–	**125,000**	31,250
R J Perry	**42,750**	42,000	**–**	–	**–**	–	**–**	–	**–**	–	**42,750**	42,000
M T Sawkins	**45,750**	45,000	**–**	–	**–**	–	**–**	–	**–**	–	**45,750**	45,000
D C Blackwood	**45,750**	41,250	**–**	–	**–**	–	**–**	–	**–**	–	**45,750**	41,250
P Guyot[4]	**10,500**	–	**–**	–	**–**	–	**–**	–	**–**	–	**10,500**	–
B McAtamney[5]	**7,000**	–	**–**	–	**–**	–	**–**	–	**–**	–	**7,000**	–
M C Buzzacott[6]	**–**	7,500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	7,500
J A S Wallace[7]	**–**	100,000	**–**	–	**–**	–	**–**	–	**–**	–	**–**	100,000

1 Benefits include all tax assessable benefits arising from the individual's employment, including car allowance, private healthcare and permanent health insurance
2 Retired from the Board 30 April 2016 and from the Company 31 October 2016 – includes all payments made in the period
3 Appointed as a Non-Executive Director 3 January 2017
4 Appointed as a Non-Executive Director 8 January 2018
5 Appointed as a Non-Executive Director 1 February 2018
6 Retired 31 May 2016
7 Retired 31 March 2017

ADDITIONAL DISCLOSURES FOR SINGLE FIGURE FOR TOTAL REMUNERATION TO 31 MARCH 2018

Salary

The Chief Executive's salary from 1 April to 31 December 2017 was £440,000 (on an annualised basis) and was increased by 2.95% to £453,000 per annum with effect from 1 January 2018. This increase is in line with the projected general workforce increase for 2018.

The Group Finance Director's salary from 1 April 2017 to 30 May 2017 was £245,000 (on an annualised basis) and was increased to £250,000 per annum with effect from 1 June 2017. The Group Finance Director is eligible to receive a salary review in June 2018 and it is anticipated that any increase will be in line with the projected general workforce increase for 2018.

Pension contributions

The Company pays contributions to the nominated personal pension plans of the Executive Directors, or makes a cash in lieu supplement, in each case at a rate equal to 20% of salary.

Annual performance bonus

The 2018 bonus for the Executive Directors was based on growth in the Group's trading profit measured against prior year and achievement of a cash target. The actual target range has not been disclosed, as the Board considers this to be commercially sensitive information. The maximum potential payout for the Group trading profit measure is 150% and 100% for the cash measure. A 50% payout occurs at the entry point of the target. The actual bonus awarded to each Executive Director was 60% of target bonus for the year.

Non-Executive Director Fees

With effect from 1 January 2018, fees payable to the Non-Executive Directors increased from £40,000 to £42,000 per annum. An additional fee for chairing a Committee increased from £5,000 to £6,000 per annum and an additional fee for the role of Senior Independent Director increased from £2,000 to £3,000 per annum.

Directors' Annual Remuneration Report
continued

LONG-TERM INCENTIVES

Performance Share Plan (PSP)

PSP is a long-term incentive for Executive Directors, the Executive Team and key members of the Leadership Team. It is designed to encourage participants to deliver sustained profitable growth and enhanced shareholder value. The policy of granting awards based on up to 100% of salary is expected to be applied to the awards to the Executive Directors and other participants in the PSP for the financial year ended 31 March 2018. The single performance criterion used in the PSP is trading EPS, which the Committee believes is a fair and appropriate condition for rewarding participants as it aligns their interests with those of shareholders and, being measured over a three-year period, aligns the reward with the Company's strategy for growth by encouraging longer-term profitable growth. When determining the trading EPS growth, the impact of material acquisitions, disposals and changes in the issued share capital will be disregarded to ensure that they do not artificially affect the EPS measurement.

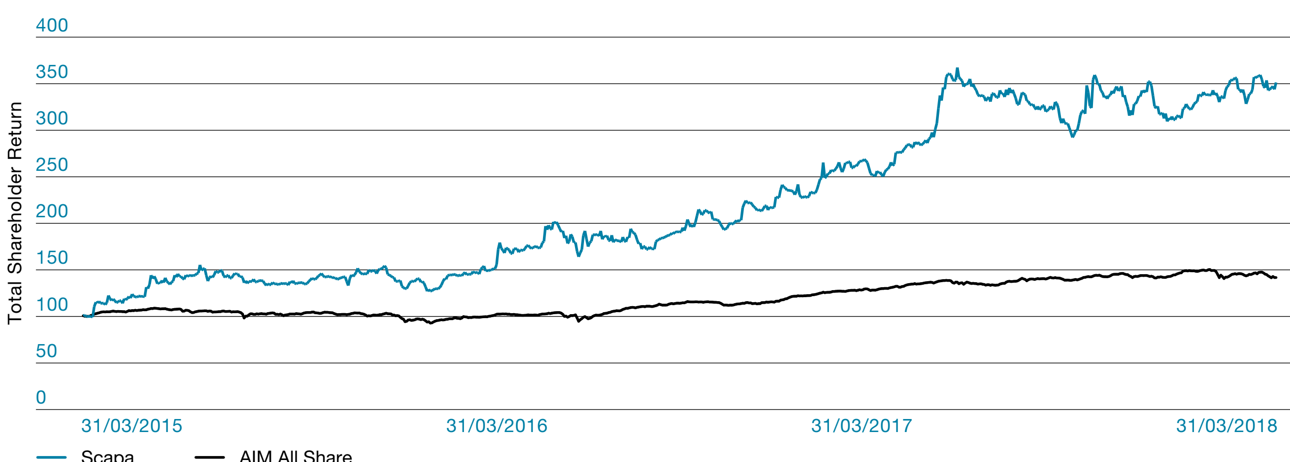
Awards granted in 2015 (audited information)

The PSP award in 2015 was based on adjusted EPS growth over the three-year period ending 31 March 2018. The adjusted EPS in March 2015 was 9.1p. The table below sets out achievement against targets for the EPS measure:

EPS target (p)	Award vesting (%)	Adjusted EPS achieved (p)	Resulting level of award (% of maximum opportunity)
3 year RPI +40%	100%	18.2p	100%

Total shareholder returns (three years)

The Company's share price over the three-year measurement period rose from 144.0p to 490.8p and market capitalisation grew from £212.0m to £753.9m, with £7.8m returned to shareholders by way of dividend.



Awards granted in 2017 (audited information)
The following PSP awards were made in the year to 31 March 2018:

Director	Number of shares awarded	Vesting date
H R Chae	92,827	9 August 2020
G S Hardcastle	52,743	9 August 2020

No variations were made to the terms of the awards in the year.

The latest closing share price as at the date on which the awards were made, 9 August 2017, was 474p.

The performance criteria for awards currently in issue but not vested are as follows:

	Adjusted 2015 EPS	Award 2015* vesting	Adjusted 2016 EPS*	Award 2016* vesting	Adjusted 2017 EPS*	Award 2017* vesting	Adjusted 2018 EPS*	Award 2018* vesting
	3 year RPI +25%	25%	3 year RPI +25%	25%	3 year RPI +25%	25%	3 year RPI +25%	25%
	3 year RPI +40%	100%	3 year RPI +40%	100%	3 year RPI +40%	100%	3 year RPI +40%	100%
Adjusted EPS at	**31 March 2017**		**31 March 2018**		**31 March 2019**		**31 March 2020**	

* Straight line vesting occurs between these points

The value of the PSP awards, based on the market price of the Company's shares on the day prior to the date of grant, does not exceed 100% of the base salary of the participant to whom the award has been made.

Value Creation Plan
The Group Chief Executive and Group Finance Director, together with the Executive Team, participate in the Scapa Group plc 2015 Value Creation Plan which was approved by shareholders in General Meeting on 16 November 2015 ('the Plan'). The Plan is intended to directly align Senior Executives' interests with those of shareholders by connecting remuneration specifically with shareholder value. Entitlements under the Plan were awarded in February 2016 and are set out below. The Plan includes an overall cap on the value of Company shares that can be delivered, as well as an 'off-set' mechanism whereby any shares that may be delivered under the Plan are reduced by the value of any shares that vest pursuant to awards made under the PSP in the financial years ending 31 March 2016, 2017 and 2018.

The Plan will reward participants for creating value through growth in the Company's share price in excess of £1.95 and up to £5.00 per share, with Tranche 1 measured on 31 March 2018 and Tranche 2 measured on 31 March 2020 (each a 'Measurement Date') and subject to gateway share price targets of £3.00 on the first Measurement Date and £4.00 on the second Measurement Date. If the gateway target is not met on the first Measurement Date, none of the awards will vest unless and until the gateway target of £4.00 is achieved on the second Measurement Date. For the purposes of the Plan, the share price on each Measurement Date will be the average closing price of the Company's shares over the 30-day period commencing on the Measurement Date. Awards vested in respect of the first Measurement Date are subject to a 24-month holding period.

The maximum pool available to participants is 5% of the value created above a share price of £1.95 up to a share price of £5.00. Assuming there were no changes to the number of shares in issue during the life of the Plan (150,033,428 at 31 March 2016), if the share price increases to £5.00 or above, the Plan would pay out a maximum of approximately £22.9m ((150 million shares x 5%) x (£5.00 – £1.95)). The aggregate number of shares in respect of which awards would crystallise at that time would therefore be 4.6 million shares. The Group Chief Executive, who has been granted a 40% participation, would hold an option to acquire 1.8 million shares and the Group Finance Director, who has been granted a 20% participation, would hold an option to acquire 0.9 million shares. These options would be reduced by the value of awards vested under the PSP, as described above.

Tranche 1 of the Value Creation Plan has now vested and the value proportion that the Group Chief Executive and Group Finance Director will qualify for is £7,919,606 and £3,959,803 respectively; however, any vested amount will subsequently be reduced by any amounts vesting under the PSP Schemes in the FY18 and FY19 financial years. Therefore the eventual value on release will be different depending on share price performance over the holding period and the value of the vesting PSP schemes being offset from the above amounts.

No further awards were granted in 2018.

Directors' Annual Remuneration Report
continued

Dilution limits

The Company's share plans are subject to dilution limits approved by shareholders at the Company's 2009 Annual General Meeting, that overall dilution under all plans should not exceed 10% over a ten-year period in relation to the Company's issued share capital. On the assumption that all outstanding awards vest and will be exercised, and including all exercised awards as at 31 March 2018, the Company will have utilised 7.5% of the 10% in the ten years.

SAYE SCHEME (AUDITED INFORMATION)

During the year, the following SAYE share options were held and exercised by the Executive Directors:

Director	Shares under option at 31 March 2017	Granted during the year	Exercised during the year	Lapsed during the year	**Shares under option at 31 March 2018**
H R Chae	5,660	–	–	–	**5,660**
P Edwards*	5,660	–	3,144	2,516	**–**

* Retired from the Board 30 April 2016 and from the Company 31 October 2016

Note: these options, granted under an all-employee share scheme, are not subject to performance conditions.

CHANGE IN REMUNERATION OF CHIEF EXECUTIVE COMPARED TO GROUP EMPLOYEES

The table below sets out the increase in remuneration of the Chief Executive and that of the Leadership Team, which comprises 36 employees (excluding new starters during the year):

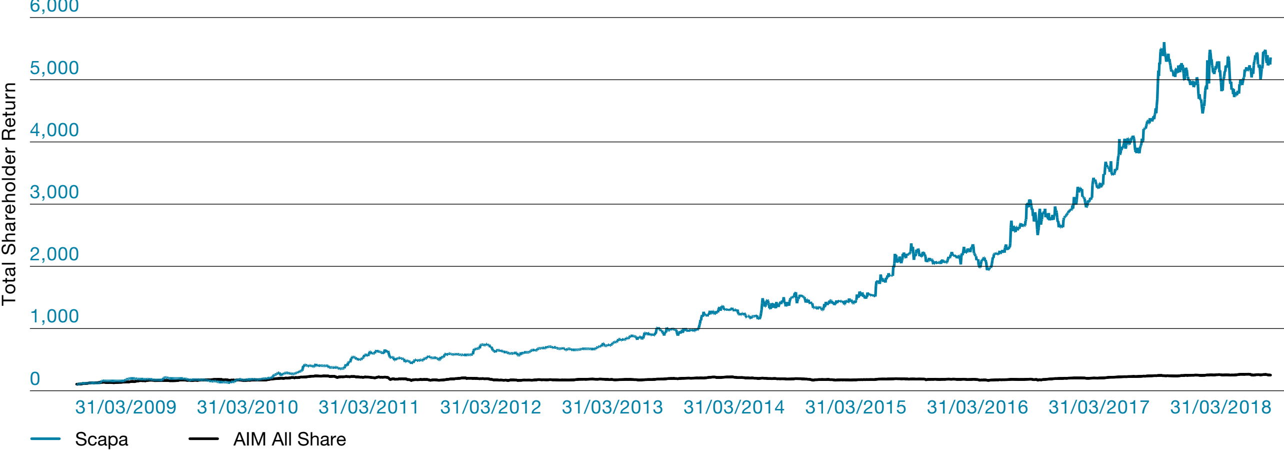
	Percentage change in remuneration in 2017 compared with remuneration in 2018	
	Chief Executive	Leadership Team
Salary/fees	3.0%	4.6%
Benefits	(0.4%)	–
Annual bonus	(35.5%)	(16.2%)
Total remuneration*	(11.7%)	(2.4%)

* Excludes share-based payments and share price incentives as these do not permit fair comparison with the Leadership Team

The Committee has selected the Leadership Team as the most relevant comparator group, taking into account the structure of remuneration and ability of the Leadership Team to earn a bonus in addition to receiving a base salary.

TOTAL SHAREHOLDER RETURNS (NINE YEARS)

The graph below shows the Company's total shareholder returns (TSR) compared to the FTSE AIM All Share Index over the last nine years. TSR is defined as share price growth plus reinvested dividends. The Directors consider the FTSE AIM All Share Index to be the most appropriate index against which the TSR of the Company should be measured because it is an index of similar sized companies to Scapa Group plc.



HISTORICAL CHIEF EXECUTIVE REMUNERATION

The table below summarises the Chief Executive single figure for total remuneration outcomes over the last nine years:

H R Chae	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Chief Executive single figure of remuneration (£)	189,238	521,973	598,288	993,945	1,169,004	854,681	3,225,419	3,472,881	**2,355,138**
Annual bonus payout (% of target)	0%	61%	66%	76%	100%	100%	100%	100%	**60%**
LTIP vesting (% of maximum opportunity)	n/a	n/a	n/a	100%	0%	0%	100%	100%	**100%**

DIRECTORS' SERVICE CONTRACTS

The following table sets out the details of the service contracts and letters of appointment for the Directors who were in office during the year under review:

Director	Effective date of service contract/ letter of appointment	Unexpired term at 31 March 2018	Notice period
Executive Directors			
H R Chae	7 September 2009	–	12 months
G S Hardcastle	1 February 2016	–	6 months
Non-Executive Directors			
L C Pentz	3 January 2017	2 years, 4 months	3 months
R J Perry*	2 June 2005	4 months	1 month
M T Sawkins	1 January 2015	3 years, 4 months	3 months
D C Blackwood	1 May 2016	1 year, 4 months	3 months
P Guyot	8 January 2018	3 years, 4 months	3 months
B McAtamney	1 February 2018	3 years, 4 months	3 months

* Retires following AGM on 17 July 2018

STATEMENT OF SHAREHOLDER VOTING

The results of the vote on the Remuneration Report at the Company's 2017 Annual General Meeting are set out in the table below:

Votes cast	Votes for		Votes against		Votes withheld
Number	Number	%	Number	%	Number
93,492,146	88,100,610	94.23	5,391,536	5.77	33,780

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below sets out the actual expenditure of the Company and difference in spend in 2017 and 2018 on total pay costs of the Group's employees, trading profit before income tax and distributions to shareholders:

	For the year to 31 March 2018 £m	For the year to 31 March 2017 £m	% change
Total employee pay	**67.3**	71.0	(5.2%)
Trading profit	**34.5**	29.2	18.2%
Dividend	**3.0**	2.6	15.4%

CORPORATE GOVERNANCE

Directors' Annual Remuneration Report
continued

DIRECTORS' SHAREHOLDINGS AND INTERESTS IN SHARES

The following table sets out the shareholdings and beneficial interests of the Directors and their connected persons in Scapa's shares as at 31 March 2018:

	31 March 2018					31 March 2017				
	Shares		**SAYE**	**Performance Share Plan**		Shares		SAYE	Performance Share Plan	
H R Chae	**1,127,104**	**2015/16**	**5,660**	**2009/10**	**–**	1,127,104	2015/16	5,660	2009/10	–
				2010/11	**–**				2010/11	–
				2011/12	**–**				2011/12	–
				2012/13	**–**				2012/13	–
				2013/14	**–**				2013/14	–
				2014/15	**–**				2014/15	336,364
				2015/16	**192,683**				2015/16	192,683
				2016/17	**152,613**				2016/17	152,613
				2017/18	**92,827**					
G S Hardcastle	**35,000**	**2015/16**	**–**	**2015/16**	**–**	20,000	2015/16	–	2015/16	–
				2016/17	**92,803**				2016/17	92,803
				2017/18	**52,743**					
P Edwards[1]	**–**	**2015/16**	**–**	**2010/11**	**–**	–	2015/16	5,660	2010/11	–
				2011/12	**–**				2011/12	–
				2012/13	**–**				2012/13	–
				2013/14	**–**				2013/14	–
				2014/15	**–**				2014/15	–
				2015/16	**–**				2015/16	–
L C Pentz	**10,000**					–				
R J Perry	**300,000**					300,000				
M T Sawkins	**30,231**					30,231				
D C Blackwood	**15,128**					15,128				
P Guyot[2]	**–**					–				
B McAtamney[3]	**–**					–				
J A S Wallace[4]	**–**					70,000				
M C Buzzacott[5]	**–**					100,000				
	1,517,463		**5,660**		**583,669**	1,662,463		11,320		774,463

1 Retired 30 April 2016 from the Board and 31 October 2016 from the Company
2 Appointed as a Non-Executive Director 8 January 2018
3 Appointed as a Non-Executive Director 1 February 2018
4 Retired 31 March 2017
5 Retired 31 May 2016

LOSS OF OFFICE PAYMENTS

Loss of office payments are made in line with a Director's individual service contract. No loss of office payments were made during the year. No payments have been made to the Directors that are not included in the single figure of remuneration set out previously.

MOVEMENTS IN SHARE PRICE DURING THE YEAR

The mid-market price of the Company's shares at the end of the financial year was 353.75p and the range of mid-market prices during the year was between 351.0p and 515.5p.

ADVICE RECEIVED BY THE COMMITTEE

During the year, the Remuneration Committee was also assisted in its work by Deloitte LLP who was appointed by the Board. The advice provided to the Remuneration Committee was limited to technical advice on the reporting regulations in connection with the disclosure of directors' remuneration, market practice developments in executive pay and the operation of Scapa's share plans. The Board took into account the Remuneration Consultants Group's Code of Conduct when reviewing the appointment of Deloitte LLP and also took into account Deloitte LLP role as external auditor. Following consultation with the Board, and consideration of the self-review, self-interest and management threats to independence, the Remuneration Committee concluded that Deloitte should be retained as advisers to the Remuneration Committee. As Deloitte are external auditor to the Company, Deloitte's advice to the Remuneration Committee is governed by certain guidelines and safeguards. The Remuneration Committee will continue to review the objectivity and independence of this engagement, having regard to the non-audit services policy of the Company.

Deloitte LLP's fees for providing advice to the Company during the year were charged on a time and materials basis and were £5,700 (+VAT). The Remuneration Committee is satisfied that all advice received was objective and independent.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

Components of remuneration

Effective from 1 January 2018, the salary of the Chief Executive is £453,000 and will be reviewed with effect from 1 January 2019.

The salary of the Group Finance Director is £250,000 with effect from 1 June 2017 and will be reviewed with effect from 1 June 2018.

Pension and benefits are in line with policy.

There was no change to the maximum opportunity under the Company's annual bonus plan. The performance measure remains growth in Group trading profit. Targets are not disclosed, as the Board considers the nature of that information to be commercially sensitive.

There was no change in the maximum PSP opportunity for the Executive Directors; awards of 100% of salary are expected to be made in 2018 to Heejae Chae and Graham Hardcastle. Performance will be assessed against growth in adjusted EPS over the three-year period ending 31 March 2021, as follows:

Adjusted EPS Performance Criteria	Award 2018 vesting
3 year RPI +25%	25%
3 year RPI +40%	100%

Note: Straight-line vesting occurs between these points

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 22 May 2018 and signed on its behalf by:

M T SAWKINS
Chairman of the Remuneration Committee
22 May 2018

CORPORATE GOVERNANCE

Directors' Report

OTHER DISCLOSURES

Pages 66 to 68 inclusive (together with sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable English company law and the liabilities of the Directors in connection with that report are subject to the limitations and restrictions provided by that law.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Scapa Group plc is the holding company for a global group of companies operating in the manufacture of bonding products and adhesive components for applications in the healthcare and industrial markets. A review of the performance and future development of the Group's business is contained on pages 1 to 36 and forms part of this report.

RESULTS AND DIVIDENDS

Trading profit was £34.5m (2017: £29.2m), an increase of £5.3m. Exceptional income in the year was £0.1m (2017: £1.0m charge). No interim dividend was paid to shareholders (2017: £Nil). The Directors recommend payment of a final dividend of 2.4p (2017: 2.0p).

A profit before tax of £28.8m (2017: £21.8m) was recorded for the year ended 31 March 2018, with basic and diluted earnings per share of 15.4p and 14.8p respectively (2017: 11.6p and 11.1p respectively).

GOING CONCERN

In presenting the annual and interim financial statements, the Directors aim to present a fair, 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. In arriving at this conclusion, the Directors have considered the committed facility and assume that the facility can be operated as contracted for the foreseeable future because there is sufficient headroom in the facility covenants. The facility is not repayable until October 2022 and the Group expects to be able to renew the facility on favourable terms. In performing this analysis the Directors reviewed downside sensitivity analysis over the forecast period thereby taking into account the uncertainties arising from the current economic climate. The Group continues to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 17 July 2018 at the Village Hotel, Pamir Drive, Ashton-under-Lyne, Tameside, Manchester, OL7 0PG. Details of the business to be considered at the Annual General Meeting and the Notice of Meeting are included in a separate document.

SHARE CAPITAL

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in notes 26 and 27 to the Group financial statements on pages 115 to 118. The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to one vote at General Meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Subject to the provisions of the Company's Articles of Association and the Companies Act 2006, at a General Meeting of the Company the Directors may request authority to allot shares and the power to disapply pre-emption rights and the authority for the Company to purchase its own ordinary shares in the market. The Board requests such authority at each Annual General Meeting. Details of the authorities to be sought at the Annual General Meeting on 17 July 2018 are set out in the Notice of Annual General Meeting.

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 notes 26 and 27 to the Group financial statements.

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 of 5p 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.

SIGNIFICANT AGREEMENTS: CHANGE OF CONTROL

All of the Company's current share plans contain provisions relating to a change of control. On a change of control, outstanding awards would normally vest and become exercisable, subject to the satisfaction of any performance conditions at that time.

The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office on a change of control.

TAKEOVER DIRECTIVE

The Company has only one class of ordinary share and these shares have equal voting rights. The nature of individual Directors' holdings is disclosed on page 64. There are no other significant holdings of any individual.

BOARD OF DIRECTORS

The names of the present Directors and their biographical details are shown on pages 38 and 39.

At the Annual General Meeting, to be held on 17 July 2018, Pierre Guyot and Brendan McAtamney will offer themselves for election. All other members of the Board, with the exception of Richard Perry, will offer themselves for re-election. Richard will retire at the conclusion of the AGM.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, which can be found in the Group Corporate Governance section of the Company's website (www.scapa.com) and the Corporate Governance Statement on pages 40 to 45.

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 communication 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.

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.

The 2015 Sharesave three-year share option scheme will mature on 1 September 2018. At 31 March 2018, 120 employees were members of the scheme with options over 386,570 shares. Details of the Executive Directors' options are set out on page 64.

BUSINESS ETHICS

The Company requires compliance by its subsidiaries and employees with the laws and standards of conduct of the countries in which it does business. This includes legislation implementing anti-corruption and competition law compliance. 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 any non-compliance issues of which they become aware.

The Company and its employees subscribe to a Code of Conduct which encapsulates the standards of behaviours expected from Scapa employees.

GREENHOUSE GAS EMISSIONS

Information regarding the Company's use of greenhouse gas emissions is described in the Sustainability Report on page 35.

RESEARCH AND DEVELOPMENT

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

FINANCIAL RISK MANAGEMENT

The Group's approach to managing financial risk is covered in note 22 to the Group financial statements.

POLITICAL DONATIONS

No political donations were made during the year (2017: £Nil).

AUDITOR

So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The auditor, Deloitte LLP, has indicated its willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

UK CORPORATE GOVERNANCE CODE

The Company's statement on Corporate Governance can be found in the Corporate Governance Report on pages 40 to 45. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

By order of the Board

W BAKER
Company Secretary
22 May 2018

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

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, IAS 1 requires that Directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

This responsibility statement was approved by the Board of Directors on 22 May 2018 and is signed on its behalf by:

By order of the Board

H R CHAE
Group Chief Executive

G S HARDCASTLE
Group Finance Director
22 May 2018

Independent Auditor's Report to the Members of Scapa Group plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Scapa Group plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the Group and company statement of accounting policies; and
- the related consolidated notes 1 to 31 and Parent Company notes 1 to 14.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

KEY AUDIT MATTERS	The key audit matters that we identified in the current year were: • Inventory valuation • Acquisition accounting • Accounting for and presentation of unusual/infrequently occurring items Within this report, any new key audit matters are identified with ^ and any key audit matters which are the same as the prior year identified with >.
MATERIALITY	The materiality that we used for the Group financial statements was £1,300,000 which was determined on the basis of 4.9% of adjusted profit before tax.
SCOPING	Based on our scoping assessment, our audit work covered 80% of the Group's profit before tax, 86% of the Group's revenue and 90% of the Group's net assets.
SIGNIFICANT CHANGES IN OUR APPROACH	During the year the Group acquired 100% of the ordinary share capital of Markel Industries Inc. and BioMed Laboratories LLC. We have included Markel Industries Inc. as a review scope component in the current year and have included acquisition accounting in relation to the purchases as a key risk in the current year.

Independent Auditor's Report to the Members of Scapa Group plc
continued

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in the accounting policies note to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 15 to 18 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 19 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on page 19 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the Group is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Last year our report also referred to retirement benefits and the carrying value of goodwill, intangible and certain tangible fixed assets and investments in subsidiaries.

There have been no significant events impacting the defined benefit pension schemes in recent years which require high levels of management judgement. In addition, management have continued to use the same process for determining the actuarial assumptions, and the assumptions adopted have previously always fallen within our acceptable range. Therefore we do not deem this a key audit matter for this year's report.

We considered the trading performance across the Group and the basis of the headroom observed in last year's analysis, and the current year trading performance, we do not consider the risk of impairment of the goodwill balance to be a key audit matter in the current year.

We have included a new key audit matter in our report this year relating to accounting for and presentation of unusual/infrequently occurring items in view of the increased number and quantum of these in the year.

INVENTORY VALUATION	
KEY AUDIT MATTER DESCRIPTION	Inventory is a significant balance sheet caption with gross stock of £38.4 million (2017: £33.2 million) held by the Group at year end. There is a specific risk arising in relation to the valuation of inventory (both in terms of the absorption of overheads to work in progress and finished goods and the provisions held against it) as disclosed in note 17 and on page 47 of the Audit and Risk Committee's Report. The calculation to determine the standard cost of inventory is complex. In particular there are significant estimates involved in the calculation of overhead absorption rates in work in progress and finished goods, such as percentages of labour and type of overhead costs that are to be absorbed. Judgement is also needed to calculate the level of inventory provisions for aged, obsolete and/or damaged stock to ensure that the inventory held by the Group is held at the lower of cost and net realisable value in line with the requirements of IAS 2.
HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER	We assessed the design and tested the implementation of the key controls in the inventory cycle. We performed tests of detail to confirm that inventory is valued at the lower of cost and net realisable value, through testing of labour and overhead absorption into inventory and post period end sales values. In addition we challenged the appropriateness of the Group's inventory provisioning policy and tested the application of the policy by assessing inventory ageing profiles and comparing the historical levels of write offs against the amounts provided. We also attended year-end inventory counts at sites holding £37.3 million (97.2%), (2017: £31.2 million, 94.0%) of the year end gross inventory balance. At the inventory counts, along with other procedures, we assessed the condition of inventory to evaluate the adequacy of inventory provisions for obsolete and damaged goods.
KEY OBSERVATIONS	We concluded that the value of inventory held is appropriate and in line with the requirements of IAS 2. We are satisfied that the judgements made by management in calculating the provisions in place and the overheads absorbed in to inventory at year end are reasonable based on the audit evidence obtained.

Independent Auditor's Report to the Members of Scapa Group plc
continued

ACQUISITION ACCOUNTING	
KEY AUDIT MATTER DESCRIPTION	On 8 August 2017 the Group acquired 100% of the share capital of Markel Industries, Controlled Environment Equipment Corp and CMark Films, LLC (together "Markel") for consideration of £7.6 million ($10.2 million). Following this, on 23 March 2018, the Group acquired 100% of the share capital of BioMed Laboratories LLC, based in Dallas, Texas for consideration of £19.7 million satisfied by cash of £13.3 million ($18.6 million) and contingent consideration of £6.4 million ($9.0 million). These transactions are disclosed in the critical judgements section of the accounting policies note on page 89, in note 12 on page 98 and in the Audit and Risk Committee Report on page 47. Therefore we have a key audit matter in the current year which concerns the judgements applied in determining: • the identification and valuation of intangible assets; • the fair values of the assets and liabilities acquired; and • the recognition and valuation of contingent consideration. The key audit matter identified also concerns the Group's disclosures, specifically whether they meet the requirements of IFRS 3 'Business Combinations'.
HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER	We reviewed the sale and purchase agreement for evidence of any warranties or provisions in order to challenge the assumptions underpinning fair value adjustments made by management to the assets and liabilities acquired and to assess the completeness of the adjustments made. We challenged the assumptions in relation to the recognition and valuation of contingent consideration based on the expected future performance of the acquired company. We also assessed the design and tested the implementation of key controls in relation to acquisition accounting. We assessed the rationale used by management in the identification of intangible assets acquired. We also assessed the assumptions underpinning the cash flow forecasts used to value the intangible assets acquired. We performed a review of the opening balance sheet acquired through agreement to supporting documentation and reviewed any significant movements to the year end. We also reviewed the disclosures in the annual report and accounts to assess their compliance with the requirements of IFRS 3.
KEY OBSERVATIONS	We concluded that the intangible assets identified are appropriate and the assumptions used in calculating the value assigned to these assets are reasonable. We concluded that the fair value of assets and liabilities acquired and the valuation of contingent consideration are appropriate and that the disclosures made in note 12 to the accounts are in line with the requirements of IFRS 3.

ACCOUNTING FOR AND PRESENTATION OF UNUSUAL/INFREQUENTLY OCCURRING ITEMS	
KEY AUDIT MATTER DESCRIPTION	A number of items have been identified as exceptional by the Group in the current year in relation to the sale of the building in Rorschach, the closure of the Korean entity, restructuring performed at a UK-based manufacturing facility and acquisition costs (both completed and abortive). The term 'exceptional' is not defined in IFRS however IAS 1 does allow for the separate presentation of items which are one-off or non-recurring in nature, where this will assist the reader in understanding financial performance. There is significant management judgement required in deciding which items are significant enough, either through quantum or by nature to show separately and outside of trading profit, a key performance indicator of the Group. The year-end exceptional items have a net income statement impact of £0.1 million gain (2017: £1.0 million charge). This comprises costs of £6.8 million and income of £6.9 million, as disclosed in note 4.
HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER	We assessed the design and tested the implementation of key controls in relation to accounting for and presentation of unusual/infrequently occurring items. We have challenged the types and valuation of costs incurred in the year by performing substantive testing on a sample of costs to supporting evidence. We have assessed the income statement presentation of any items included as exceptional to determine whether these items are material, quantitatively and/or qualitatively and whether these are truly one-off in nature and do not form part of the normal business operations. We have also challenged whether all costs and income meet the Group's exceptional policy as disclosed in the accounting policies note by assessing the balances management have included within trading profit and not presented as exceptional.
KEY OBSERVATIONS	We concluded the presentation of items described as 'exceptional' in the income statement meet the requirements IAS 1 and the Group's accounting policy. We concluded the value of costs incurred are appropriate. We have also concluded that the disclosures made in note 4 are in line with the requirements of IAS 1.

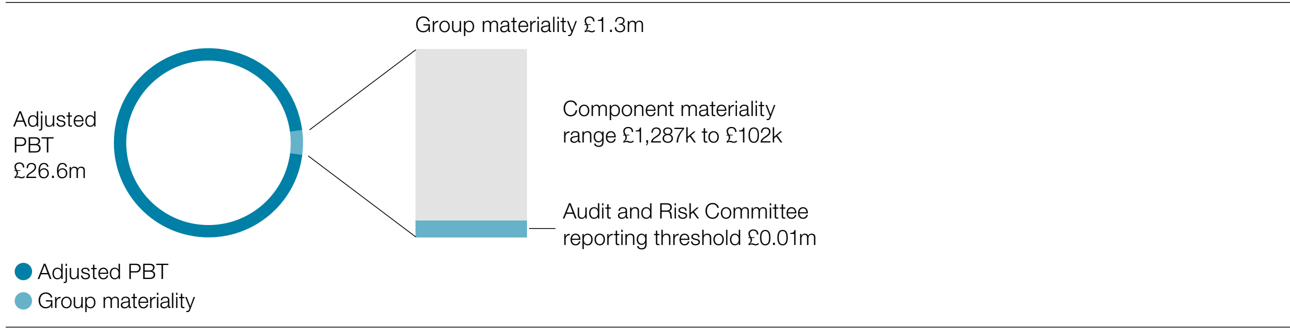
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
MATERIALITY	£1,300,000 (2017: £1,000,000)	£1,287,000
BASIS FOR DETERMINING MATERIALITY	4.9% of adjusted profit before tax (2017: 4.4% of adjusted profit before tax)	The basis of materiality is net assets, taking into account the Group materiality, the materiality is approximately 0.7% of net assets.
RATIONALE FOR THE BENCHMARK APPLIED	Profit before tax is used as the benchmark for materiality as it is considered the critical performance measure of the Group. In line with the prior year, the current year profit before tax has been adjusted for certain exceptional items incurred in the year related to profit on disposal (£6.9 million income) and site closure costs (£4.7 million expense) as disclosed in note 4 of the accounts.	The entity's primary operation is to act as a holding company for the Group. In line with the prior year approach, equity has been taken as the benchmark for materiality.

Independent Auditor's Report to the Members of Scapa Group plc continued



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £10,000 (2017: £10,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at eleven (2017: eleven) components.

The structure of the Group's finance function is such that certain transactions are accounted for at the central European shared service centre based in the United Kingdom, where we centralised elements of our audit work, with the remainder accounted for in the operating units or at consolidation level.

Given the nature of the Group's corporate structure, where all evidence relating to each component is compiled at the Group's central European shared service centre, the Group audit team undertook all the audit work for four (2017: four) of the European full scope components. In addition the Group audit team performed audit work for the US and Canadian locations and visited those components. The work on all six (2017: seven) of these full scope components was led by the senior statutory auditor.

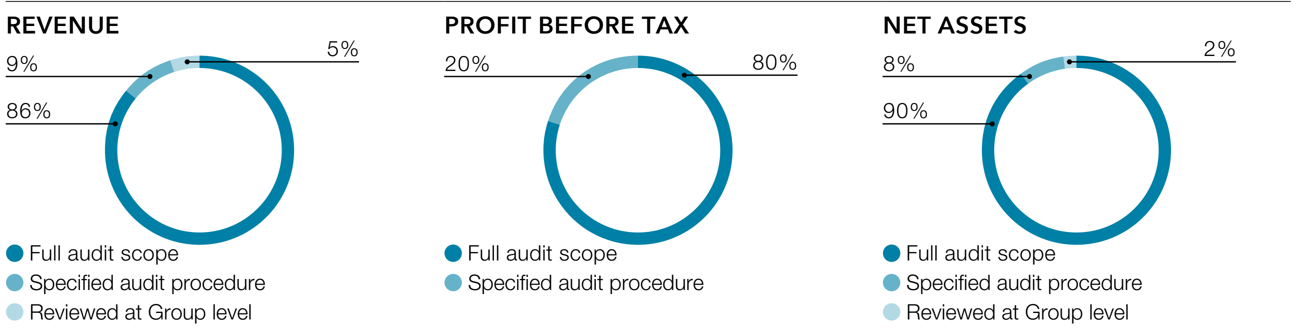
Eight (2017: ten) of the components were subject to a full audit, whilst three (2017: one) were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. Component materiality levels ranged from £1,287,000 to £102,000.

In terms of the two full scope components for which the audit work was not led by the senior statutory auditor we included the component audit teams in our team briefing, discussed their risk assessment, attended relevant close meetings and reviewed documentation of the findings from their work.

Given the proximity of the acquisition of BioMed Laboratories LLC to the balance sheet date, and the fact this only represents 1.9% of the Group's net assets, it was not deemed necessary to bring this component into audit or review scope.

The components which were subject to a full scope audit represent the Group's principal business units and account for 86% (2017: 95%) of the Group's revenue, 90% (2017: 96%) of the Group's net assets and 80% (2017: 97%) of the Group's profit before tax (offset on consolidation by losses elsewhere in the Group). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The other components subject to more limited audit procedures cover a further 8.9% (2017: 1.2%) of the Group's revenue, 8% (2017: 1%) of the Group's net assets and 20% (2017: 2%) of the Group's profit before tax.

The Parent Company is located in Manchester, UK and audited directly by the Group audit team. At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of Scapa Group plc
continued

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and or the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Opinion on other matter prescribed by our engagement letter
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Matters on which we are required to report by exception Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	**We have nothing to report in respect of this matter.**

CHRIS ROBERTSON (SENIOR STATUTORY AUDITOR)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, UK
22 May 2018

Consolidated Income Statement for the year ended 31 March 2018

All on continuing operations	note	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Revenue	1	**291.5**	279.6
Operating profit	1, 3	**30.7**	23.8
Trading profit*		**34.5**	29.2
Amortisation of intangible assets		**(3.3)**	(3.7)
Exceptional items	4	**0.1**	(1.0)
Pension administration costs		**(0.6)**	(0.7)
Operating profit		**30.7**	23.8
Net finance costs	8	**(1.9)**	(2.0)
Profit on ordinary activities before tax		**28.8**	21.8
Taxation charge	9	**(5.3)**	(4.2)
Profit for the year		**23.5**	17.6
Weighted average number of shares	10	**153.1**	151.1
Basic earnings per share (p)	10	**15.4**	11.6
Diluted earnings per share (p)	10	**14.8**	11.1
Adjusted earnings per share (p)**	10	**18.2**	14.8

* Profit before tax, before net finance costs, amortisation of intangible assets, exceptional items and pension administration costs

** Adjusted earnings per share is calculated by dividing the trading profit less cash interest less tax on operating activities by the weighted average number of ordinary shares in issue during the year

Consolidated Statement of Comprehensive Income for the year ended 31 March 2018

All on continuing operations	note	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Profit for the year		**23.5**	17.6
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		**(9.8)**	12.7
Actuarial gain/(loss)	25	**6.6**	(6.9)
Items that will not be reclassified subsequently to profit and loss:			
Deferred tax on actuarial gain		**(0.7)**	–
Other comprehensive income for the year		**(3.9)**	5.8
Total comprehensive income for the year		**19.6**	23.4

The notes on pages 90 to 120 form part of these financial statements.

Consolidated Balance Sheet as at 31 March 2018

	note	31 March 2018 £m	31 March 2017 £m
Assets			
Non-current assets			
Goodwill	13	**67.2**	56.4
Intangible assets	14	**11.0**	6.6
Property, plant and equipment	15	**45.6**	49.3
Deferred tax asset	9	**5.2**	8.0
Other receivables		**0.2**	0.2
		129.2	120.5
Current assets			
Assets classified as held for sale	16	**–**	5.1
Inventory	17	**35.0**	30.7
Trade and other receivables	18	**58.8**	57.2
Current tax asset		**0.2**	1.4
Cash and cash equivalents	19	**18.1**	12.1
		112.1	106.5
Liabilities			
Current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities	21	**(1.0)**	(1.2)
Trade and other payables	20	**(57.2)**	(52.0)
Deferred consideration	12	**(2.9)**	(0.1)
Current tax liabilities		**(2.7)**	(1.1)
Provisions	24	**(2.2)**	(1.3)
		(66.0)	(55.7)
Net current assets		**46.1**	50.8
Non-current liabilities			
Financial liabilities:			
– Borrowings and other financial liabilities	21	**(21.5)**	(27.0)
Trade and other payables	20	**(0.1)**	(0.1)
Deferred consideration	12	**(3.5)**	–
Deferred tax liabilities	9	**(4.5)**	(7.1)
Non-current tax liabilities		**(2.9)**	(2.9)
Retirement benefit obligations	25	**(21.0)**	(31.4)
Provisions	24	**(2.9)**	(2.4)
		(56.4)	(70.9)
Net assets		**118.9**	100.4
Shareholders' equity			
Ordinary shares	26	**7.7**	7.6
Share premium		**0.4**	0.4
Retained earnings		**87.4**	59.2
Translation reserve		**23.4**	33.2
Total shareholders' equity		**118.9**	100.4

The notes on pages 90 to 120 form part of these financial statements. These financial statements were approved by the Directors on 22 May 2018.

H R CHAE
Group Chief Executive

G S HARDCASTLE
Group Finance Director

Registered in England No. 826179

Consolidated Statement of Changes in Equity for the year ended 31 March 2018

	Share capital £m	Share premium £m	Translation reserves £m	Retained earnings £m	Total equity £m
Balance at 31 March 2016	7.5	0.4	20.5	49.3	77.7
Employee share option scheme – value of employee services	–	–	–	1.9	1.9
Equity-settled share based payments	–	–	–	(0.1)	(0.1)
Dividends to shareholders	–	–	–	(2.6)	(2.6)
Issue of shares	0.1	–	–	–	0.1
	0.1	–	–	(0.8)	(0.7)
Currency translation differences	–	–	12.7	–	12.7
Actuarial loss on pension schemes	–	–	–	(6.9)	(6.9)
Net income recognised directly in equity	–	–	12.7	(6.9)	5.8
Profit for the period	–	–	–	17.6	17.6
Total comprehensive income	–	–	12.7	10.7	23.4
Balance at 31 March 2017	7.6	0.4	33.2	59.2	100.4
Employee share option scheme – value of employee services	–	–	–	1.9	1.9
Equity-settled share based payments	–	–	–	(0.1)	(0.1)
Dividends to shareholders	–	–	–	(3.0)	(3.0)
Issue of shares	0.1	–	–	–	0.1
	0.1	–	–	(1.2)	(1.1)
Currency translation differences	–	–	(9.8)	–	(9.8)
Actuarial gain on pension schemes	–	–	–	6.6	6.6
Deferred tax on actuarial gain	–	–	–	(0.7)	(0.7)
Net income recognised directly in equity	–	–	(9.8)	5.9	(3.9)
Profit for the period	–	–	–	23.5	23.5
Total comprehensive income	–	–	(9.8)	29.4	19.6
Balance at 31 March 2018	**7.7**	**0.4**	**23.4**	**87.4**	**118.9**

Consolidated Cash Flow Statement for the year ended 31 March 2018

All on continuing operations	note	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Cash flows from operating activities			
Net cash flow from operations	28	**31.1**	29.1
Cash generated from operations before exceptional items	28	**34.7**	32.7
Cash outflows from exceptional items	28	**(3.6)**	(3.6)
Net cash flow from operations		**31.1**	29.1
Net interest paid		**(1.3)**	(1.2)
Income tax paid		**(2.8)**	(2.8)
Net cash generated from operating activities		**27.0**	25.1
Cash flows used in investing activities			
Acquisition of subsidiary, net of cash acquired	12	**(20.5)**	(27.7)
Purchase of property, plant and equipment		**(6.4)**	(8.3)
Purchase of capitalised development costs		**(0.2)**	(0.1)
Proceeds from disposal of available-for-sale assets*		**13.3**	–
Net cash used in investing activities		**(13.8)**	(36.1)
Cash flows (used in)/generated from financing activities			
Dividends		**(3.0)**	(2.6)
Increase in borrowings		**34.8**	33.4
Repayment of borrowings		**(38.1)**	(27.5)
Net cash (used in)/generated from financing activities		**(6.3)**	3.3
Net increase/(decrease) in cash and cash equivalents		**6.9**	(7.7)
Cash and cash equivalents at beginning of the year		**12.1**	18.7
Exchange (losses)/gains on cash and cash equivalents		**(0.9)**	1.1
Total cash and cash equivalents at end of the year	19	**18.1**	12.1

* Gain on disposal treated as exceptional income

Group accounting policies

Scapa Group plc ('the Company') and its subsidiaries (together 'the Group') manufacture bonding products and adhesive components for applications in the healthcare and industrial markets. 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 Alternative Investment Market.

These consolidated financial statements have been approved for issue by the Board of Directors on 22 May 2018.

A summary of the more important Group accounting policies applied in the preparation of these consolidated financial statements is set out below.

BASIS OF PREPARATION

The consolidated financial statements of Scapa Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. 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 the Income Statement.

GOING CONCERN

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on page 66 and in the Viability Statement on page 19.

EARLY ADOPTION OF STANDARDS

The Group has not early adopted any Standards in the current or prior year.

ADOPTION OF NEW AND REVISED STANDARDS

The following amendments have been adopted in the year:

IFRS 1 "Clarification of the meaning of 'effective IFRSs'"
IFRS 3 "Clarification of the scope exclusion for joint ventures"
IFRS 13 "Clarification of the scope of the portfolio exemption"
IAS 40 "Clarification of the relationship between IFRS 3 and IAS 40"
IAS 19 "Defined benefit plans: employee contributions"
Annual improvements to IFRSs 2010-2012 cycle (Dec 2014)
Annual improvements to IFRSs 2011-2013 cycle (Dec 2013)

The above interpretations and revised standard have not had any material impact on the amounts reported in these financial statements or the disclosures required.

Group accounting policies
continued

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9 Financial instruments
IFRS 14 Regulatory deferral accounts
IFRS 15 Revenue from contracts with customers
IFRS 16 Leases
IRFIC 22 Foreign currency transactions and advance consideration
Amendments to IAS 1 Disclosure initiative
Amendments to IFRS 10, IFRS 12 and IAS 28 The application of the investment entities exemptions
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
Amendments to IFRS 11 Accounting for acquisitions of interest in joint operations
Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 27 Equity method in separate financial statements
Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses
Amendments to IAS 7 Disclosure initiative
Amendment to IAS 16 and IAS 41 Agriculture: Bearer plants
Annual improvements to IFRSs 2012-2014 cycle (Sep 2014)
Annual improvements to IFRSs 2014-2016 cycle (Dec 2016)

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

IFRS 15 is effective for annual periods beginning 1 January 2018 and will replace IAS 11 Construction Contracts and IAS 18 Revenue. This standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard will move the focus from risk and reward to control when assessing revenue recognition, therefore the Group is currently reviewing its contracts, specifically where consignment arrangements are in place and where goods are customer specific. Per the initial assessment it is not anticipated that transition to IFRS 15 will have a material impact on the Group.

IFRS 16 is effective for annual periods beginning 1 January 2019 and will replace IAS 17 Leases. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is low value. As at 31 March 2018, the Group holds a significant number of operating leases (including property, vehicles and equipment) which currently, under IAS 17, are expensed on a straight line basis over the lease term. An initial assessment has been performed and it is anticipated that transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the consolidated balance sheet as the lessee recognises a 'right of use' asset for all leases (see note 29 for current operating lease commitments). Rental charges will require reclassification in the income statement, resulting in an increase to the Group Trading profit and EBITDA.

Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date the Company gains control of the subsidiary or until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group companies are eliminated on consolidation.

The Group has an interest in Scapa Scottish Limited Partnership, whose head office is located at 13 Queens Road, Aberdeen, AB15 4YL. The financial statements of the Group include the results and financial position of the Group's interest in Scapa Scottish Limited Partnership. Accordingly advantage has been taken of the exemptions provided by Regulation 7 of the Partnership (Accounts) Regulations 2008 from the requirements for the preparation, delivery and publication of the partnership's accounts.

SEGMENTAL REPORTING

IFRS 8 Operating Segments requires that the segments should be reported on the same basis as the internal reporting information that is provided to the chief operating decision maker. The Group adopts this policy and the chief operating decision maker has been identified as the Board of Directors. The Directors consider there to be two reportable segments, being the main customer groups which the Group serves in: Industrial and Healthcare (business units).

Internal reports reviewed regularly by the Board provide information to allow the chief operating decision maker to allocate resources and make decisions about the operations. The internal reporting focuses on these business units. The chief operating decision maker relies primarily on turnover and trading profit to assess the performance of the Group and make decisions about resources to be allocated to the segment. Trading profit is reconciled to operating profit on the face of the Income Statement.

REVENUE RECOGNITION

Revenue comprises the fair value for the sale of goods, 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.

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) Development and quality programme income*

The Group has an immaterial amount of revenue relating to product development and quality programmes that are provided specifically for a customer. This is currently limited to our Healthcare business. This revenue is recognised upon the supply of the service to the customer.

* In our Healthcare business we refer to turn-key solutions, this incorporates the supply of goods in the form of products for specific applications and packaged finished products and also includes an immaterial amount of development and quality programme income

(c) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

TRADING PROFIT

Trading profit is profit before tax, before net finance costs, amortisation of intangible assets, exceptional items and pension administration costs.

EXCEPTIONAL ITEMS

Items which are both material, either qualitatively or quantitatively, and infrequent in nature are presented as exceptional items so as to provide a better indication of the Group's underlying business performance and are shown separately on the face of the Income Statement. Items classed as exceptional in the Income Statement are treated as exceptional in the cash flow until the items are fully unwound.

OPERATING PROFIT

Operating profit is trading profit stated after charging all exceptional costs, pension administration costs and the amortisation of intangible assets, but before net finance costs.

Group accounting policies
continued

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.

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.

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 38 criteria for capitalisation. Upon meeting the IAS 38 criteria these costs are capitalised.

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.

(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; and

(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 long-term borrowings that are considered to form part of that net investment, are taken to the 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.

BUSINESS COMBINATIONS AND GOODWILL

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred, and are normally treated as exceptional.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interests in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

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.

PROPERTY, PLANT AND EQUIPMENT (INCLUDING LAND AND BUILDINGS)

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 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 when 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 and machinery: 5–20 years
- Furniture, fittings and equipment: 5–20 years
- IT systems: 3–8 years

Assets held in the course of construction are not depreciated until they are brought into use.

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 within operating profit.

Group accounting policies
continued

ASSETS HELD FOR SALE

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale or transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain interest in its former subsidiary after the sale.

INTERNALLY GENERATED INTANGIBLE ASSETS

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Internally generated intangible assets arising from development are recognised only if all of the following conditions have been demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use
- The intention to complete and use the asset
- How the asset will generate probable future economic benefit
- The availability of adequate technical, financial and other resources to complete the development and to use the asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognised for internally-generated intangible assets is the same as the expenditure incurred from the date when the asset first meets the recognition criteria listed above. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment.

INTANGIBLE ASSETS

All acquired intangible assets are measured at cost and are amortised on a straight-line basis over their estimated useful lives. All of the Group's intangible assets have finite lives, the lengths of which are disclosed separately under the notes in the accounts.

IMPAIRMENT OF ASSETS

Assets, such as goodwill, that have an indefinite useful life are not subject to amortisation and instead are tested annually for impairment. Assets that are subject to amortisation or depreciation 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 forecasts form the basis of the Group's annual budget, have been signed off by the Board and are the best estimates available to management in assessing future profitability. These cash flows are discounted using the Group's pre-tax weighted average cost of capital of 10.0% (2017: 10.0%) and are adjusted for specific risk factors that take into account the sensitives of the projection.

Where the recoverable amount of assets (other than goodwill) subsequently materially increases, impairment losses recognised in previous periods will be reversed.

FINANCIAL INSTRUMENTS

The Group has financial instruments in the form of 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 historical cost less any impairment.

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 allocated on a systematic basis (based on normal operating capacity). 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, by reference to accumulated experience.

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 provision is recognised in the Income Statement as an operating charge.

INSURANCE RECEIVABLES

Where some or all of the cost of a provision is reimbursed by another party, the Group recognises that reimbursement when it is virtually certain it will be received.

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.

TRADE PAYABLES

Trade payables are recognised at the invoice amount, which is equal to their fair value.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Interest charges are recognised in the Income Statement over the period of the borrowings, using the effective interest method.

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.

TAXATION

Taxation expense, comprising both UK and non-UK taxation, represents the sum of the current tax payable and deferred tax.

Current tax is the tax expected to be payable on taxable profit for the period using tax rates that have been enacted or substantively enacted by the Balance Sheet date, together with any adjustments in respect of previous years. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are not taxable or deductible or are taxable or deductible in other years.

Deferred tax is recognised using the liability method for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, unless specifically exempt. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised. The resulting charge or credit is recognised in the Income Statement except when it relates to items recognised directly in equity, in which case the charge or credit is also recognised directly in equity.

DIVIDENDS

Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the Annual General Meeting.

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.

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 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 the Income Statement.

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.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as an 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 appropriate valuation models and is recognised as an expense over the vesting period.

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 past practice 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 and 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 nominal discount rate. The discount rate does not reflect risks for which the estimated future outflows have already been adjusted.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Under IFRSs 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.

(a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described above, the directors have made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below) and has been identified as being particularly complex or involve subjective assessments.

- In assessing the separable identifiable intangible assets and goodwill for any acquisition, the Group establishes an appropriate fair value and this is assessed in line with external valuation tools and techniques. The valuation techniques used in the identification of separable identifiable intangible assets are a key judgement in the application of the Group's accounting policies.
- In assessing the separable intangible assets and goodwill for the Markel Industries and BioMed Laboratories LLC acquisitions in August 2017 and March 2018 respectively, the assumptions used to calculate fair values have been externally assessed as reasonable and are supported by the discounted recoverable amount of the business.

(b) Key sources of estimation uncertainty

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

- Accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions. The future assumptions applied in the calculation of scheme liabilities, which are set out in note 25, represent a key source of estimation uncertainty for the Group. The Group also applies sensitivities to these assumptions to assess the financial impact; these sensitivities are set out in note 25.

Notes on the accounts

1. SEGMENTAL REPORTING

Business unit segments

The Group operates two standalone business units: Healthcare and Industrial, supported by a strategic Corporate function. All inter-segment transactions are made on an arm's length basis.

The Board rely primarily on turnover and trading profit to assess the performance of the Group and make decisions about resources to be allocated to each segment; assets and liabilities are looked at geographically. Trading profit is reconciled to operating profit on the face of the Income Statement.

The Board reviews the performance of the business using information presented at constant exchange rates. The prior year results have been restated at constant currency as shown on the following pages.

Segment results

The segment results for the year ended 31 March 2018 are as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	112.8	178.7	–	291.5
Trading profit/(loss)	17.4	22.5	(5.4)	34.5
Amortisation of intangible assets	(2.9)	(0.4)	–	(3.3)
Exceptional items	(1.5)	1.8	(0.2)	0.1
Pension administration costs	–	–	(0.6)	(0.6)
Operating profit/(loss)	13.0	23.9	(6.2)	30.7
Net finance costs				(1.9)
Profit on ordinary activities before tax				28.8
Tax charge				(5.3)
Profit for the year				23.5

Revenue is allocated based on the country in which the order is received. The revenue analysis based on the location of the customer is as follows:

	Europe £m	N America £m	Asia £m	Other £m	Group £m
External revenue – 31 March 2018	**111.2**	**141.8**	**20.4**	**18.1**	**291.5**
External revenue – 31 March 2017	109.1	139.4	14.1	17.0	279.6

The revenue analysis based on the location of the selling company as follows:

	Europe £m	N America £m	Asia £m	Other £m	Group £m
External revenue – 31 March 2018	**110.5**	**162.7**	**15.8**	**2.5**	**291.5**
External revenue – 31 March 2017	114.3	148.8	14.4	2.1	279.6

There are no single customers with greater than 10% share of the total Group revenue.

1. SEGMENTAL REPORTING CONTINUED

The segment results for the year ended 31 March 2017 are as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	108.7	170.9	–	279.6
Trading profit/(loss)	16.6	17.8	(5.2)	29.2
Amortisation of intangible assets	(3.7)	–	–	(3.7)
Exceptional items	(0.6)	(0.7)	0.3	(1.0)
Pension administration costs	–	–	(0.7)	(0.7)
Operating profit/(loss)	12.3	17.1	(5.6)	23.8
Net finance costs				(2.0)
Profit on ordinary activities before tax				21.8
Tax charge				(4.2)
Profit for the year				17.6

The Board reviews the performance of the business using information presented at consistent exchange rates. The prior year results have been restated using this year's exchange rates as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	108.7	170.9	–	279.6
Foreign exchange	(0.6)	3.6	–	3.0
Underlying external revenue	108.1	174.5	–	282.6
Trading profit/(loss)	16.6	17.8	(5.2)	29.2
Foreign exchange	(0.1)	0.3	–	0.2
Underlying trading profit/(loss)	16.5	18.1	(5.2)	29.4

2. SEGMENT ASSETS AND LIABILITIES

The Board does not review assets and liabilities by business unit but by geographical area as reporting entity balance sheets cannot be split accurately by business unit. The assets and liabilities at 31 March 2018 and capital expenditure for the year then ended can be analysed into geographical segments as follows:

	Europe £m	N America £m	Asia £m	Head office £m	Group £m
Non-current assets*	**30.8**	**91.5**	**1.2**	**0.5**	**124.0**
Inventory	**14.9**	**17.9**	**2.2**	**–**	**35.0**
Trade receivables – net	**23.5**	**27.0**	**1.8**	**–**	**52.3**
Trade payables	**(23.3)**	**(14.6)**	**(0.7)**	**(1.2)**	**(39.8)**
Cash	**6.6**	**8.6**	**2.9**	**–**	**18.1**
Additions of property, plant and equipment	**3.1**	**3.0**	**0.2**	**0.1**	**6.4**

* Non-current assets excluding deferred tax assets

FINANCIAL STATEMENTS

Notes on the accounts
continued

2. SEGMENT ASSETS AND LIABILITIES CONTINUED

The assets and liabilities at 31 March 2017 and capital expenditure for the year then ended were as follows:

	Europe £m	N America £m	Asia £m	Head office £m	Group £m
Non-current assets*	30.8	77.0	4.1	0.6	112.5
Inventory	12.3	15.8	2.6	–	30.7
Trade receivables – net	25.6	24.6	1.7	–	51.9
Trade payables	(19.9)	(10.8)	(1.0)	(0.6)	(32.3)
Cash	4.2	4.9	2.3	0.7	12.1
Additions of property, plant and equipment	4.6	3.3	0.2	0.2	8.3

* Non-current assets excluding deferred tax assets

Unallocated head office items relate to assets and liabilities incurred in the normal course of business for the Parent Company.

3. OPERATING PROFIT

The operating profit for the year is stated after (charging)/crediting:

	2018 £m	2017 £m
Revenue	**291.5**	279.6
Materials and overheads	**(143.7)**	(134.7)
Factory costs	**(23.2)**	(22.7)
Outward freight costs	**(7.4)**	(7.1)
Directors' and employees' costs	**(67.5)**	(71.0)
Depreciation of tangible fixed assets:		
– owned assets	**(6.2)**	(6.1)
– leased assets	**(0.1)**	(0.1)
Operating lease rentals:		
– land and buildings	**(2.8)**	(2.6)
– plant, machinery and other	**(1.0)**	(1.4)
Repairs and maintenance costs	**(3.7)**	(3.1)
Amortisation of government grants received	**0.1**	–
Research and development costs	**(3.7)**	(3.7)
Foreign exchange (losses)/gains	**(0.6)**	1.1
Amortisation of other intangible assets	**(3.1)**	(3.3)
Amortisation of internally generated assets	**(0.2)**	(0.4)
Movement in inventory provision	**(0.8)**	(0.1)
Impairment loss recognised in trade receivables	**(0.2)**	(0.5)
Exceptional items	**0.1**	(1.0)
Pension administration costs	**(0.6)**	(0.7)

3. OPERATING PROFIT CONTINUED

The analysis of auditor's remuneration is as follows:

	2018 £'000	2017 £'000
Audit fees – Parent Company	**117**	99
Audit fees – subsidiary undertakings	**246**	245
Taxation compliance services	**17**	29
Taxation advisory services	**4**	5
Other audit related assurance services	**10**	1
Corporate finance services	**217**	193
Other non-audit services	**5**	–
	616	572

Total audit fees were £363,000 (2017: £344,000). Total non-audit fees payable to the auditor were £253,000 (2017: £228,000).

4. EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Operating income:		
Swiss land and building sale	**6.9**	–
Past service credit	**–**	0.3
Operating expenses:		
Site closure costs	**(2.9)**	(0.5)
Asset write offs and accelerated depreciation	**(1.8)**	(0.2)
Reorganisation costs	**(1.1)**	–
Abortive acquisition costs	**(0.2)**	–
Acquisition costs	**(0.8)**	(0.6)
	0.1	(1.0)

Exceptional operating income

Following the closure of the Rorschach site in Switzerland in 2016, the land and buildings were sold on the 20 July 2017 for an amount of £13.3m. The asset was reported as an asset held for sale in the prior year with a net book value of £5.1m and sale associated costs amounted to £1.3m, resulting in an exceptional gain for this disposal of £6.9m.

The prior year £0.3m exceptional operating income relates to a past service credit on the UK scheme following a pension increase exchange exercise carried out during the year.

4. EXCEPTIONAL ITEMS CONTINUED

Exceptional operating expenses

On the 23 May 2017 the Group announced its intention to exit production in Korea and transfer the technology and plant & machinery to other existing sites within the Group. As a result, the Group has booked exceptional expenses of £2.9m relating to the costs of the closure and associated transfer costs, plus an additional £1.8m for the impairment of assets that will not be transferred as part of the closure.

A reorganisation of a UK-based manufacturing facility has resulted in an exceptional reorganisation cost of £1.1m in the year for employee-related severance costs.

On 8 August 2017 the Group acquired Markel Industries and on 23 March 2018 the Group acquired BioMed Laboratories LLC (see note 12), this resulted in £0.8m of exceptional acquisition costs. A further £0.2m of abortive costs have also been charged in the year relating to a potential acquisition that did not progress to completion.

The prior year expenses relate to the closure of the Rorschach site in Switzerland which was announced in April 2015 and subsequently provided for in the 2016 accounts. Costs incurred related to retention payments made to certain key members of staff of £0.5m and impairment of assets that continued to be used up until cessation of production at the site of £0.2m. There were also acquisition costs directly related to the acquisition of EuroMed.

5. EMPLOYEE BENEFIT EXPENSE

	2018 £m	2017 £m
Wages, salaries and other benefits	**54.3**	58.0
Social security costs	**8.7**	8.7
Share options granted to Directors and employees	**1.9**	1.9
Pension costs – defined contribution plans (note 25)	**2.2**	2.0
Pension costs – defined benefit plans (note 25)	**0.2**	0.4
	67.3	71.0
Pension curtailments and service costs (note 4)	**–**	(0.3)
	67.3	70.7

Average employee numbers	2018	2017
Europe	**607**	656
North America	**635**	617
Asia	**66**	91
	1,308	1,364

6. KEY MANAGEMENT COMPENSATION AND DIRECTORS' REMUNERATION

	2018				2017			
	Executive Directors £m	Non-Executive Directors £m	Key management £m	Total £m	Executive Directors £m	Non-Executive Directors £m	Key management £m	Total £m
Short-term employment benefits	2.2	0.3	2.5	5.0	2.4	0.3	2.4	5.1
Post-employment benefits	0.1	–	0.1	0.2	0.1	–	0.1	0.2
Termination benefits	–	–	–	–	–	–	0.3	0.3
Share-based payments (including share incentive plan)	0.8		0.7	1.5	0.7	–	0.9	1.6
	3.1	0.3	3.3	6.7	3.2	0.3	3.7	7.2

Key management is considered by the Group to be the Executive Team, which comprises certain senior employees. Information about the remuneration of individual Directors is provided in the audited part of the Directors' Annual Remuneration Report on pages 59 to 65.

The short-term employment benefits include wages and salaries, bonuses, social security contributions and non-monetary benefits.

7. RELATED PARTY TRANSACTIONS

The pension schemes are related parties to the Group. There were no contributions outstanding at the year end and full details of transactions within the pensions schemes are detailed in note 25.

8. NET FINANCE COSTS

	2018 £m	2017 £m
Interest payable on bank loans and overdrafts	(1.2)	(1.2)
Interest income on pension scheme assets less interest on scheme liabilities (note 25)	(0.7)	(0.8)
Net finance costs	(1.9)	(2.0)

9. TAXATION

Income tax charge

	2018 £m	2017 £m
Current tax:		
Tax on trading activities – current year	(4.5)	(4.2)
Tax on trading activities – prior year	(0.1)	0.3
Tax on non-trading items	(1.0)	–
Total current tax	(5.6)	(3.9)
Deferred tax:		
Tax on trading activities – current year	(0.7)	(1.2)
Tax on trading activities – prior year	(0.1)	(0.5)
Tax on non-trading items	1.1	1.4
Total deferred tax	0.3	(0.3)
Tax charge on trading activities for the year	(5.4)	(5.6)
Tax credit on non-trading items for the year	0.1	1.4
Tax charge for the year	(5.3)	(4.2)

9. TAXATION CONTINUED

The actual tax on the Group's profit before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2018 £m	2017 £m
Profit on ordinary activities before tax	**28.8**	21.8
Tax charge at 19.0% (2017: 20%)	**(5.5)**	(4.4)
Movements to unprovided deferred tax	**0.3**	2.8
Income not taxable and other deductions	**0.2**	0.3
Items not deductible for tax purposes and other taxable items	**(0.3)**	(1.2)
Change in tax rate	**2.2**	–
Effect of overseas tax rates being higher than UK tax rate	**(2.0)**	(1.5)
Adjustments in respect of prior years	**(0.2)**	(0.2)
Actual tax charge for the year	**(5.3)**	(4.2)

Finance Act 2016, which was subsequently enacted on 15 September 2016, includes provisions to reduce the corporation tax rates to 19.0% with effect from 1 April 2017 and 18.0% with effect from 1 April 2020.

In addition, Finance Bill 2017 was substantively enacted on 6 September 2017 which introduced a further reduction in the main rate of corporation tax from 18.0% to 17.0% from 1 April 2020. There is no expiry date on timing difference, unused tax losses or tax credits.

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

	2018 £m	2017 £m
Deferred tax assets:		
– Losses	**0.8**	1.9
– Provisions and other temporary differences	**2.4**	3.8
– Retirement benefit liabilities	**3.3**	4.3
	6.5	10.0
Deferred tax liabilities:		
– Accelerated tax depreciation	**(2.2)**	(3.0)
– Other temporary differences	**(0.3)**	(0.4)
– Tax effect of goodwill and intangibles	**(3.3)**	(5.7)
	(5.8)	(9.1)

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

	2018 £m	2017 £m
Deferred tax assets as above	**6.5**	10.0
– Deferred tax liabilities in same jurisdiction	**(1.3)**	(2.0)
Deferred tax asset on the Balance Sheet	**5.2**	8.0
Deferred tax liabilities as above	**(5.8)**	(9.1)
– Deferred tax assets in same jurisdiction	**1.3**	2.0
Deferred tax liability on the Balance Sheet	**(4.5)**	(7.1)

Deferred tax is only recognised to the extent that it will be recoverable in future periods.

9. TAXATION CONTINUED

Movement in deferred tax	2018 £m	2017 £m
Beginning of the year	0.9	1.2
Exchange differences	0.2	–
Income Statement charge	0.3	(0.3)
Deferred tax on actuarial gain	(0.7)	–
End of year	0.7	0.9

At the balance sheet date, the Group has unused tax losses of £28.4m (2017: £30.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £3.5m (2017: £7.9m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £24.9m (2017: £22.5m) of such losses where there remains uncertainty over the timing of utilisation relating to future profitability. The majority of losses may be carried forward indefinitely.

Tax assets amounting to £10.0m (2017: £11.7m) have not been recognised due to the uncertainty over the utilisation of the underlying tax losses in each jurisdiction.

Deferred tax items have not been recognised in respect of the following items	2018 £m	2017 £m
Accelerated capital allowances	3.3	3.2
Temporary differences	0.8	1.1
Pensions	1.0	2.9
Tax losses	4.9	4.5
Total	10.0	11.7

10. 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 potentially dilutive ordinary shares 158,305,608 (2017: 157,873,262). Diluted earnings per share has been calculated including share options in existence at 31 March 2018.

Adjusted

Adjusted earnings per share is calculated by dividing the trading profit less cash interest less tax on operating activities by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to equity holders of the Company (£m)	23.5	17.6
Weighted average number of ordinary shares in issue (m)	153.1	151.1
Basic earnings per share (p)	15.4	11.6
Weighted average number of shares in issue, including potentially dilutive shares (m)	158.3	157.9
Diluted earnings per share (p)	14.8	11.1
Adjusted earnings per share (p)	18.2	14.8

11. DIVIDEND PER SHARE

A final dividend of 2.4p per share is proposed for the year ended 31 March 2018 (2017: 2.0p). The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these financial statements. The total estimated dividend to be paid is £3.7m. No interim dividend was proposed.

Notes on the accounts
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12. ACQUISITION OF SUBSIDIARY

On 8 August 2017 the Group acquired 100% of the share capital of Markel Industries. Markel is a leading North American manufacturer of adhesive floor mats and tacky rollers for use in medical clean rooms, electronic and industrial assembly areas, construction site and sports venues. The Company is based in Portland, Maine and Manchester, Connecticut.

The Directors believe that the acquisition of Markel brings multiple advantages to Scapa, including:

- Markel's largely North American customer base has a similar profile to Scapa's, offering cross-selling opportunities
- Markel's high quality core clean room contamination prevention products will enhance Scapa's current products offerings in Europe
- Meaningful overlap in supply chain and manufacturing technology as well as proximity of Markel's manufacturing sites to Scapa offer an opportunity for efficiencies
- The acquisition is expected to be earnings enhancing in the first full year in the enlarged Group.

On 23 March 2018 the Group acquired 100% of the share capital of BioMed Laboratories LLC. BioMed is a leading developer and manufacturer of gels, creams, lotions and liquids for the wound care and consumer wellness markets. The Company is based in Dallas, Texas.

The Directors believe that the acquisition of BioMed will give the following benefits to Scapa, including:

- Allows Scapa Healthcare to better serve the ancillary accessories market for advanced wound care and ostomy segments
- Expands our turn-key value proposition in consumer wellness, including OTC and Health & Beauty
- Offers the opportunity to leverage Scapa Healthcare's global infrastructure to further drive BioMed's growth
- The acquisition is expected to be earnings enhancing in the first full year in the enlarged Group

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Markel Industries £m	BioMed Laboratories £m	Fair Value £m
Net assets acquired			
Separately identifiable intangible assets	2.1	5.9	8.0
Property, plant and machinery	0.1	0.8	0.9
Debtors and other assets	0.5	0.6	1.1
Inventory	0.5	1.2	1.7
Cash and cash equivalents	0.3	0.1	0.4
Trade and other payables	(0.3)	(0.8)	(1.1)
	3.2	7.8	11.0
Goodwill	4.4	11.9	16.3
Total consideration	7.6	19.7	**27.3**
Satisfied by cash	7.6	13.3	20.9
Satisfied by deferred consideration	–	6.4	6.4
Net cash outflow arising on acquisition:			
Cash consideration	7.6	13.3	20.9
Less: cash and cash equivalent balance acquired	(0.3)	(0.1)	(0.4)
	7.3	13.2	**20.5**

12. ACQUISITION OF SUBSIDIARY CONTINUED

In addition to the above, the former owners of the BioMed business have the opportunity to earn an additional US$13.0m (£9.3m) consideration based on the future performance of BioMed. At acquisition the fair value was considered to be £6.4m (£2.9m due in 2019 and £3.5m due in 2020). The potential undiscounted future payments that the Group could be required to pay based on the performance of the business are £5.8m in 2019, and £3.5m in 2020.

The goodwill and intangibles of £24.3m arising from the acquisitions are expected to be deductible for income tax purposes in the US. Acquisition-related costs (included within exceptionals) amount to £0.8m.

Markel Industries contributed £3.9m of revenue and £0.1m to Group profit between the date of acquisition and 31 March 2018. BioMed Laboratories contributed £0.1m of revenue and £Nil to Group profit between the date of acquisition and 31 March 2018. If the acquisition of Markel Industries and BioMed Laboratories had been completed on the first day of the financial year, Group revenues for the period would have been £303.8m and Group profit before tax would have been £27.8m.

13. GOODWILL

	2018 £m	2017 £m
Cost		
1 April	**82.9**	57.7
Additions	**16.3**	16.8
Exchange differences	**(8.3)**	8.4
31 March	**90.9**	82.9
Accumulated amortisation and impairment		
1 April	**(26.5)**	(23.0)
Exchange differences	**2.8**	(3.5)
31 March	**(23.7)**	(26.5)
Net book value at 31 March	**67.2**	56.4

Goodwill relates to the Acutek Medical operation £13.8m (2017: £15.4m), Webtec £15.0m (2017: £16.8m), First Water Limited £6.7m (2017: £6.7m), EuroMed £15.6m (2017: £17.5m), Markel Industries £4.2m and BioMed Laboratories £11.9m.

The carrying value of the Group's goodwill is not subject to annual amortisation and was tested for impairment at March 2018. The recoverable amount has been determined on a value in use basis on each cash-generating unit using the management approved 12-month forecasts for each cash-generating unit. The base 12-month projection is inflated by 3.0% – 10.0% up to year 5, which management believes does not exceed the long-term average growth rate for the industry, and then is subject to a 1% growth and costs inflation through to year 20, with a terminal value calculated on a perpetuity basis.

These cash flows are discounted at a pre-tax discount rate of 10.0% (2017: 10.0%) and adjusted for specific risk factors that take into account the sensitivities of the projection. The Group WACC is assessed as being suitable for each cash-generating unit as these are based within the UK and USA, where returns are similar. The Group has conducted a sensitivity analysis on the impairment test. If the assumed growth rate was reduced to 0%, the recoverable amount of all cash-generating units individually would remain greater than their carrying values. An increase in the pre-tax discount rate to 14.0% would result in positive headroom remaining, compared to the carrying value of goodwill for each cash-generating unit.

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14. OTHER INTANGIBLE ASSETS

	Patents and development costs £m	Customer relationships £m	Customer lists and sales pipeline £m	Technology and know-how £m	Total £m
Cost					
1 April 2016	1.4	5.1	2.5	0.9	9.9
Exchange differences	0.1	0.7	0.4	0.1	1.3
Additions	0.1	–	–	–	0.1
Acquisition of subsidiary	3.1	3.1	–	0.3	6.5
31 March 2017 and 1 April 2017	**4.7**	**8.9**	**2.9**	**1.3**	**17.8**
Exchange differences	(0.4)	(0.4)	–	–	(0.8)
Additions	0.2	–	–	–	0.2
Acquisition of subsidiary	0.2	7.8	–	–	8.0
31 March 2018	**4.7**	**16.3**	**2.9**	**1.3**	**25.2**
Amortisation					
1 April 2016	(0.3)	(3.8)	(1.9)	(0.5)	(6.5)
Exchange differences	–	(0.6)	(0.3)	(0.1)	(1.0)
Charge for the year	(1.0)	(1.8)	(0.6)	(0.3)	(3.7)
31 March 2017 and 1 April 2017	**(1.3)**	**(6.2)**	**(2.8)**	**(0.9)**	**(11.2)**
Exchange differences	0.1	0.2	–	–	0.3
Charge for the year	(1.2)	(1.9)	–	(0.2)	(3.3)
31 March 2018	**(2.4)**	**(7.9)**	**(2.8)**	**(1.1)**	**(14.2)**
Carrying amount					
31 March 2018	**2.3**	**8.4**	**0.1**	**0.2**	**11.0**
31 March 2017	3.4	2.7	0.1	0.4	6.6
Remaining useful economic life (years)	1-3	1-3	–	1-3	

The brought forward intangible assets relate to the acquisition of EuroMed Inc in 2016, First Water Limited in 2015 and Webtec in 2011. No value has been assigned to brand names, as Scapa companies are contract manufacturers and inherent brand value resides with customers rather than the manufacturer.

15. 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
Cost							
1 April 2016	21.7	8.0	97.1	4.2	18.6	1.8	151.4
Exchange differences	3.0	0.2	9.6	0.4	0.8	0.1	14.1
Additions	0.5	0.6	4.5	0.6	0.3	1.8	8.3
Acquisition of subsidiary	–	–	1.6	–	0.2	0.1	1.9
Transfer to assets held for sale	(10.8)	–	–	–	–	–	(10.8)
Disposals	–	(0.1)	(0.4)	(0.2)	(0.1)	–	(0.8)
Transfers	0.4	–	1.8	–	–	(2.2)	–
31 March 2017 and 1 April 2017	14.8	8.7	114.2	5.0	19.8	1.6	164.1
Exchange differences	(0.7)	(0.2)	(5.0)	(0.2)	(0.6)	(0.1)	(6.8)
Additions	0.3	0.3	2.4	0.5	0.2	2.7	6.4
Acquisition of subsidiary	–	–	0.7	0.2	–	–	0.9
Disposals	–	–	(22.3)	(1.6)	(0.6)	–	(24.5)
Transfers	0.6	–	1.0	0.1	0.2	(1.9)	–
31 March 2018	**15.0**	**8.8**	**91.0**	**4.0**	**19.0**	**2.3**	**140.1**
Accumulated depreciation							
1 April 2016	(9.2)	(4.5)	(70.6)	(3.4)	(17.6)	–	(105.3)
Exchange differences	(1.3)	(0.1)	(6.9)	(0.4)	(0.7)	–	(9.4)
Depreciation	(0.8)	(0.2)	(4.5)	(0.2)	(0.5)	–	(6.2)
Transfer to assets held for sale	5.7	–	–	–	–	–	5.7
Impairment	–	–	(0.4)	–	–	–	(0.4)
Disposals	–	0.1	0.4	0.2	0.1	–	0.8
31 March 2017 and 1 April 2017	(5.6)	(4.7)	(82.0)	(3.8)	(18.7)	–	(114.8)
Exchange differences	0.3	0.1	3.6	0.2	0.5	–	4.7
Depreciation	(0.7)	(0.3)	(4.5)	(0.3)	(0.5)	–	(6.3)
Impairment	–	–	(1.8)	–	–	–	(1.8)
Disposals	–	–	21.5	1.6	0.6	–	23.7
31 March 2018	**(6.0)**	**(4.9)**	**(63.2)**	**(2.3)**	**(18.1)**	**–**	**(94.5)**
Carrying amount							
31 March 2018	**9.0**	**3.9**	**27.8**	**1.7**	**0.9**	**2.3**	**45.6**
31 March 2017	9.2	4.0	32.2	1.2	1.1	1.6	49.3

The Group has not revalued any item of property, plant and equipment. Impairment of property, plant and equipment of £1.8m (2017: £0.4m) relates to the closure of Korea; prior year relates to the closure of the Rorschach site in Switzerland.

15. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

	2018 £m	2017 £m
Cost	**0.6**	0.6
Accumulated depreciation	**(0.5)**	(0.4)
Net book amount	**0.1**	0.2

During the year ended March 2018 there were no events or changes in circumstance that would indicate the carrying value of property, plant and equipment may not be recoverable.

16. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale	2018 £m	2017 £m
Rorschach land and buildings cost	**–**	10.8
Rorschach buildings depreciation	**–**	(5.7)
Carrying value at 31 March	**–**	5.1

The Rorschach land and buildings were held as an asset held for sale in the prior year. During the year the land and buildings were sold and the profit on disposal was £6.9m.

17. INVENTORY

	2018 £m	2017 £m
Raw materials	**14.0**	11.6
Work in progress	**8.3**	7.7
Finished goods	**12.7**	11.4
	35.0	30.7

The material and overhead element of inventory recognised as an expense and included in the Income Statement amounted to £143.7m (2017: £134.7m).

There is no material difference between the Balance Sheet value and the fair value less costs to sell.

18. TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Amounts due within one year:		
Trade receivables	**54.5**	54.7
Less: provisions for impairment	**(2.2)**	(2.8)
Trade receivables – net	**52.3**	51.9
Other debtors	**2.0**	1.9
Prepayments and accrued income	**4.5**	3.4
Total amounts due within one year	**58.8**	57.2

18. TRADE AND OTHER RECEIVABLES CONTINUED

The carrying amounts of these receivables are denominated in the following currencies:

	2018 £m	2017 £m
Pounds Sterling	6.2	6.2
US Dollars	28.3	25.7
Euros	19.8	19.1
Other	4.5	6.2
	58.8	57.2

At the year end, the following trade receivables balances were overdue but not impaired:

	2018 £m	2017 £m
Less than 1 month	1.2	–

Overdue analysis includes impact of foreign exchange movements. Historically customer default is low. The credit quality of the year end receivables balance is considered high. The Group does not use credit insurance to cover any instance of default as the risk is considered to be low.

The movement in the impairment provision for trade receivables is as follows:

	2018 £m	2017 £m
Opening provision at 1 April 2017	2.8	2.3
Exchange differences	(0.1)	0.2
Provisions on acquisition	0.1	–
Charge for the year	0.2	0.5
Receivables written off in the year	(0.8)	(0.2)
Closing provision at 31 March 2018	2.2	2.8

Included in the impairment provision are individually impaired trade receivables with a gross balance of £2.2m (2017: £2.8m). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds.

Ageing of impaired trade receivables:

	2018 £m	2017 £m
Less than 1 month	1.5	–
Between 1 and 3 months	0.6	–
Greater than 3 months	0.1	2.8

19. CASH AND CASH EQUIVALENTS

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

	2018 £m	2017 £m
Cash and cash equivalents	18.1	12.1

20. TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade payables and trade accruals	39.8	32.3
Other taxes and social security	4.9	6.4
Other creditors	12.5	13.3
	57.2	52.0
Amounts due after more than one year:		
Other creditors	0.1	0.1

The carrying amounts of these payables are denominated in the following currencies:

	2018 £m	2017 £m
Amounts due within one year:		
Pounds Sterling	15.5	12.8
US Dollars	19.0	16.3
Euros	19.7	18.3
Other	3.0	4.6
	57.2	52.0

	2018 £m	2017 £m
Amounts due after more than one year:		
Pounds Sterling	0.1	–
Euros	–	0.1
	0.1	0.1

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 87 days (2017: 75 days), stated using the non-labour element of cost of goods sold. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

21. BORROWINGS

	2018 £m	2017 £m
Amounts due within one year:		
Finance leases	0.1	0.1
Other loans	0.9	1.1
	1.0	1.2
Amounts due after more than one year:		
Bank loan	21.4	26.9
Finance leases	0.1	0.1
	21.5	27.0
Total borrowings	22.5	28.2

21. BORROWINGS CONTINUED

The Group's revolving credit facility was due to expire in June 2018. During the year the Group secured replacement banking facilities from a revised banking syndicate and entered into a new revolving credit facility (RCF) on 31 October 2017. The principal features of the facility are:

- the initial committed value of the facility is £70m
- there is access to an accordion of £30m
- it is unsecured
- it is repayable in October 2022
- the interest payable on drawings under the loan is based on inter-bank interest plus a sliding scale margin determined by the Group's leverage; the margin is currently 1.1%
- the facility has two covenants – the ratio of EBITDA to interest paid must be above 4:1, and the ratio of EBITDA to net debt must be less than 3.0.

The carrying value of borrowings is approximate to their fair value. The effective interest rates at the Balance Sheet date were as follows:

	%
31 March 2018 – Bank loans and overdrafts	**3.1%**
31 March 2017 – Bank loans and overdrafts	2.4%

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

	2018 £m	2017 £m
Pounds Sterling	**–**	4.0
US Dollars	**22.5**	24.2
	22.5	28.2

Movements in forward currency contracts 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. At 31 March 2018 there were no assets or liabilities recognised in the Balance Sheet relating to the fair values of forward foreign exchange contracts in place (2017: £Nil) (see note 22).

The Group has the following undrawn borrowing facilities:

	2018 £m	2017 £m
Bank loan (committed)	**48.6**	32.9
Overdrafts	**–**	1.0

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk, liquidity risk and capital 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 business units) under policies approved by the Board of Directors.

– Foreign exchange risk

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

To manage its foreign exchange risk the Group uses foreign currency bank balances, and makes occasional use of foreign currency forward contracts to avoid short-term fluctuations in currencies. In addition, purchases of large items of capital in foreign currency are covered by forward contracts at the point of authorisation.

– Interest rate risk

The Group is exposed to interest rate risk as it has borrowings at floating rates. Interest rate risk is evaluated periodically to consider interest rate views and defined risk appetite; to seek to ensure that reasonable economic strategies are applied, by either positioning the Balance Sheet or protecting interest expense through different interest rate cycles.

– Commodity price risk

The Group is exposed to commodity price risk as it buys a number of commodity products that are vital to its production process. The Group mitigates this risk by fixing pricing with its suppliers where possible. The contracts entered into continue to be held for the purpose of the receipt of the commodity in accordance with the Group's expected purchase or usage requirements. There is no intention to re-sell the commodities bought.

– 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.

Liquidity tables

The following tables detail the Group's contractual maturity for financial instruments. The tables are drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Due within one year £m	One to two years £m	Two to five years £m
2018			
Trade payables and trade accruals	39.8	–	–
Other taxes and social security	4.9	–	–
Other creditors	12.5	0.1	–
Finance leases	0.1	0.1	–
Loans and overdrafts	0.9	–	21.4
	58.2	0.2	21.4

22. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

	Due within one year £m	One to two years £m	Two to five years £m
2017			
Trade payables and trade accruals	32.3	–	–
Other taxes and social security	6.4	–	–
Other creditors	13.3	0.1	–
Finance leases	0.1	0.1	–
Loans and overdrafts	1.1	26.9	–
	53.2	27.1	–

There are no items with a maturity greater than five years.

The following tables detail the Group's contractual maturity for financial assets. The tables are drawn up based on the undiscounted contracted maturities of those financial assets.

	Due within one year £m	One to two years £m	Two to five years £m
2018			
Receivables	**54.3**	**–**	**–**
Cash and cash equivalents	**18.1**	**–**	**–**
	72.4	**–**	**–**
2017			
Receivables	53.8	–	–
Cash and cash equivalents	12.1	–	–
	65.9	–	–

In accordance with IFRS 7 Improving Disclosures about Financial Instruments, the Group's financial instruments are considered to be classified as Level 2 instruments. Level 2 fair value measurements are those derived from inputs other than unadjusted quoted prices in active markets (Level 1 categorisation) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– 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 spread across a number of financial institutions. The credit risk position for our major customers is detailed below. This shows a fairly predictable level of credit utilisation across the regions and years, and highlights that there is no concentration of credit risk with respect to trade receivables.

Europe

The top five customers by balance at 31 March 2018 had a total receivable of £1.9m, versus their cumulative credit limit of £2.4m. The top five customers at 31 March 2017 had a total receivable of £3.9m, versus their cumulative credit limit of £4.4m.

North America

The top five customers by balance at 31 March 2018 had a total receivable of £12.1m, versus their cumulative credit limit of £19.2m. The top five customers at 31 March 2017 had a total receivable of £9.7m, versus their cumulative credit limit of £17.3m.

Asia

The top five customers by balance at 31 March 2018 had a total receivable of £1.0m, versus their cumulative credit limit of £1.5m. The top five customers at 31 March 2017 had a total receivable of £1.4m, versus their cumulative credit limit of £1.8m.

23. CAPITAL RISK

The Group defines the capital that it manages as the Group's total equity. The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group must ensure that sufficient capital resources are available for working capital requirements and meeting principal and interest payments as they fall due. In order to ensure that sufficient capital is available, the Group may adjust the amount of new shares issued, return capital to shareholders, alter its dividend policy or dispose of assets to reduce net debt.

The Group monitors capital using the following main indicators:

Gearing ratio	2018	2017
Total equity (£m)	118.9	100.4
Total assets (£m)	241.3	227.0
Equity % ratio	49%	44%

Net debt to EBITDA ratio	2018	2017
Net debt (£m)	(3.8)	(16.1)
EBITDA (£m)	40.8	35.4
Net debt to EBITDA ratio	0.09	0.45

Net debt to EBITDA comprises net debt divided by trading profit before depreciation.

EBITDA interest cover	2018	2017
EBITDA (£m)	40.8	35.4
Net interest payable (£m)	(1.2)	(1.2)
Interest cover – times	34	30

EBITDA interest cover comprises trading profit before depreciation, divided by net interest payable on bank overdrafts and loans, other loans and bank deposits.

The Group's principal loan covenants are: EBITDA interest cover (EBITDA being at least 4 times the net interest payable); and net debt to EBITDA ratio (net debt being less than 3.0 times adjusted EBITDA).

24. PROVISIONS

	Reorganisation and leasehold commitments £m	Environmental £m	Total £m
At 1 April 2017	3.3	0.4	3.7
Additions in the year	5.3	–	5.3
Utilised in the year	(3.7)	(0.2)	(3.9)
At 31 March 2018	**4.9**	**0.2**	**5.1**
Analysis of provisions:			
Current	2.1	0.1	2.2
Non-current	2.8	0.1	2.9
At 31 March 2018	**4.9**	**0.2**	**5.1**

24. PROVISIONS CONTINUED

	Reorganisation and leasehold commitments	Environmental £m	Total £m
At 1 April 2016	5.0	0.4	5.4
Exchange differences	0.2	–	0.2
Additions in the year	1.1	0.2	1.3
Release in the year	(0.4)	(0.1)	(0.5)
Utilised in the year	(2.6)	(0.1)	(2.7)
At 31 March 2017	**3.3**	**0.4**	**3.7**
Analysis of provisions:			
Current	1.0	0.3	1.3
Non-current	2.3	0.1	2.4
At 31 March 2017	**3.3**	**0.4**	**3.7**

– Reorganisation and leasehold commitments

The £4.9m (2017: £3.3m) reorganisation and leasehold commitments provision relates to dilapidations for leasehold property of £2.8m (2017: £2.5m), £0.1m (2017: £0.1m) in relation to reorganisation costs, £1.0m relating to the Korea site closure, £0.6m relating to the sale of the Swiss land and buildings and £0.3m relating to a legal provision in Germany. The expected utilisation of these provisions range between one and five years. The £0.7m provision relating to the closure of the Rorschach site in the prior year was fully utilised during the year.

– Environmental provisions

Environmental provisions relate to expected costs required to clean up environmental contamination of a number of sites in Europe of £0.2m (2017: £0.4m). The Group expects the majority of the spend against the environmental provisions to be incurred over the next three years.

25. RETIREMENT BENEFIT OBLIGATIONS

– Defined contribution schemes

The Group operates a number of defined contribution schemes. Employer's contributions are charged to the Income Statement as incurred. The total pension cost for the Group in respect of these schemes for the year ended 31 March 2018 was £2.2m (2017: £2.0m). The assets of these schemes are held in independently administered funds.

– Defined benefit schemes

The total amounts recognised in the Group financial statements for defined benefit schemes are summarised on pages 109 to 115.

(a) UK schemes

By far the largest defined benefit scheme in the Group is the Scapa Group plc Pension Scheme, which has the assets and liabilities of former UK employees. The scheme has been closed to new members and future accrual since 2007/08 and is wholly funded by the sponsoring employer, Scapa Group plc. The assets of the scheme are held separately from the Company under Trust and both the assets and liabilities are held on a non-sectionalised basis. The scheme is managed by a professional trustee.

The IAS 19 Retirement Benefits valuations have been updated from the prior year using formal valuation calculations carried out as at 1 April 2015, in order to assess the liabilities of the schemes at 31 March 2018. Scheme assets are stated at their market value at 31 March 2018.

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

– Funding arrangement

On 11 March 2013 Scapa Group plc entered into an asset-backed funding arrangement with the Trustees of the UK Pension Funds using Scapa Scottish Limited Partnership ("the Partnership") as a vehicle for this arrangement. The Partnership that was formed between the Group and the pension fund holds the income and capital rights to a Group asset. The Trustees of the UK Pension funds will hold the income rights related to the asset over the life of the agreement with capital rights ultimately controlled by the Group.

The Partnership acquired income and capital rights to a Group asset in the form of an inter-company loan note and, under the terms of the Partnership, the Trustees have been granted rights to the interest payments on the inter-company loan note over the lifetime of the arrangement, which are backed by profits from Scapa's US business.

The scheme's interest in the Partnership entitles it to an annual distribution of £3.75m cash per annum subject to RPI indexation capped at 5% for 25 years or until the pension funds is in surplus. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The investment held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

The Group pays the administration costs of the Scheme of £0.35m per year subject to RPI indexation, and pays non-administration costs as agreed on a project by project basis with the Trustee.

Total cash payments in the year, including both deficit repair and expenses, were £4.4m (2017: £4.4m). As at 31 March 2018 no amounts were outstanding (2017: same). Total cash payments expected in the year to 31 March 2019 are £4.4m.

The arrangement provides the Group with a less volatile basis for financing the long-term pension liabilities.

(b) Overseas schemes

The Group operates a number of pension schemes in different countries. There are several small defined benefit schemes and a number of defined contribution schemes. In addition, in certain countries, the Group must provide for various employee termination benefits. These are accounted for as if they were defined benefit pension schemes. The total defined benefit pension charge to operating profit for the Group in respect of overseas pension schemes for the year ended 31 March 2018 was £0.2m (2017: £0.4m), excluding settlement gains. The forecast future contributions into these schemes are expected to be similar to the current year contributions, but are subject to the number and nature of leavers in any period.

Details of the Group's material overseas defined benefit schemes are as follows:

– North America

The Group operates three pension plans in North America, a funded defined benefit scheme and two unfunded pension plans. The defined benefit scheme was closed during the prior year and all three schemes are therefore now closed to new members and future accrual. The disclosures are based on the most recent actuarial valuations of liabilities and asset market values at 31 March 2018.

– France

The Group operates an unfunded statutory retirement benefit scheme in France with liabilities of £4.3m (2017: £4.2m), with payments made to employees on retirement.

– Italy

There is an unfunded statutory termination indemnity plan in Italy, with payments made to employees on retirement or termination of service. The Italian scheme is closed to future accrual following changes in local legislation in 2013. It has liabilities of £0.6m (2017: £0.6m).

– Switzerland

The Group has an insured retirement fund in Switzerland that is accounted for under IAS 19, with assets in excess of liabilities for the 31 March 2018 valuation period. The scheme is subject to an asset ceiling therefore no asset is recognised for the surplus.

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Set out below are the key financial assumptions used to calculate scheme liabilities under IAS 19. Given the relative size of the schemes, the age profile and sensitivities are only provided for the UK.

	UK		North America		France		Italy		Switzerland	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate	**2.50%**	2.45%	**4.09%**	4.14%	**1.50%**	1.75%	**0.45%**	0.40%	**–**	0.50%
Salary rises	**–**	–	**–**	–	**2.00%**	2.00%	**–**	–	**–**	1.00%
Price inflation (RPI)	**3.05%**	3.10%	**3.00%**	3.00%	**2.00%**	2.00%	**2.00%**	2.00%	**–**	1.00%
Price inflation (CPI)	**2.05%**	2.10%	**–**	–	**–**	–	**–**	–	**–**	–
Future pension increases – RPI max 5%	**2.94%**	2.97%	**–**	–	**–**	–	**–**	–	**–**	–
Future pension increases – RPI max 3%	**2.32%**	2.33%	**–**	–	**–**	–	**–**	–	**–**	–
Amount of pension commuted for cash	**25.00%**	25.00%	**–**	–	**–**	–	**–**	–	**–**	–

The salary increase assumption is no longer relevant in the UK and US as the schemes are closed to future accrual.

The expected investment returns have been calculated using the weighted average of the expected investment returns for the different asset classes. The expected return on investments for the UK schemes are set out in the table below; the expected return on investment for the overseas schemes is not a key judgement given the small asset values.

The assumptions relating to UK longevity underlying the pension liabilities at the Balance Sheet date are based on standard actuarial mortality tables, with adjustments to reflect actual experience. For the year to 31 March 2018, the IAS 19 calculations have been performed using standard actuarial tables known as S2PA. Future improvements in mortality have been allowed for using the core CMI 2017 model, with a long-term rate of improvement of 1.25% per annum. In the current year these tables have then been adjusted with a loading to reflect the geographic membership profile of the scheme. During the year to March 2016 a postcode mortality exercise was conducted on the schemes membership. The results of this exercise showed that a best estimate adjustment to the base table used on the 1 April 2014 actuarial valuation was 115% for all members. This assumption, reducing the expected longevity of members, has been used in the March 2018 disclosures.

Actuarial assumption sensitivities

The calculation of the schemes' deficits is sensitive to changes in the underlying assumptions listed above. The following tables show the approximate effect of changes in the key assumptions on the UK scheme's liabilities (and deficit) at the year end. These are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same. Note that sensitivities are not provided for the overseas schemes because the materiality of the results is not significant.

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

	UK 2018 £m
Rate of inflation	
Change in the year end liabilities from a 0.5% increase in the assumed rate of inflation	**(4.9)**
Change in the year end liabilities from a 0.5% decrease in the assumed rate of inflation	**5.1**
Discount rate	
Change in the year end liabilities from a 0.5% increase in the assumed rate of discount	**(10.2)**
Change in the year end liabilities from a 0.5% decrease in the assumed rate of discount	**11.3**
Mortality	
Life expectancy of members increases by 1 year	**6.7**
Life expectancy of members decreases by 1 year	**(6.7)**
Current pensioners (years):	
Male life expectancy at age 65	**85.9**
Female life expectancy at age 65	**87.8**
Future pensioners (years):	
Male life expectancy at age 65 (currently aged 45)	**87.3**
Female life expectancy at age 65 (currently aged 45)	**89.3**

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

UK scheme	2018 Value £m	2017 Value £m
Overseas equities	**24.1**	30.3
Corporate bonds	**49.9**	50.8
Fixed interest government bonds	**34.8**	31.8
Index-linked government bonds	**11.4**	13.2
Property	**3.1**	4.1
Hedge funds	**14.1**	11.0
Cash and cash equivalents	**1.8**	2.2
Total market value of assets*	**139.2**	143.4
Present value of scheme liabilities	**(153.2)**	(167.2)
Net deficit in the schemes	**(14.0)**	(23.8)

* No quoted market price in active market for the UK scheme investments for 2018 (2017: same)

The weighted average duration of the defined benefit obligation at 31 March 2018 is approximately 16 years (2017: 16 years).

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

French scheme	2018 Value £m	2017 Value £m
Present value of scheme liabilities	(4.3)	(4.2)
Net deficit in the schemes	(4.3)	(4.2)

Italian scheme	2018 Value £m	2017 Value £m
Present value of scheme liabilities	(0.6)	(0.6)
Net deficit in the scheme	(0.6)	(0.6)

Swiss scheme	2018 Value £m	2017 Value £m
Total market value of assets	–	11.5
Present value of scheme liabilities	–	(11.5)
Net deficit in the scheme	–	–

North American schemes	2018 Value £m	2017 Value £m
Equities	3.4	3.0
Bonds	4.7	5.3
Other	0.8	1.0
Total market value of assets	8.9	9.3
Present value of scheme liabilities	(11.0)	(12.1)
Net deficit in the schemes	(2.1)	(2.8)

The amounts recognised in the Income Statement are as follows:

	2018 £m	2017 £m
Current service cost	(0.2)	(0.4)
Settlement	–	0.3
Total included within staff costs	(0.2)	(0.1)
Interest income on scheme assets less interest on scheme liabilities	(0.7)	(0.8)
Total included within finance costs	(0.7)	(0.8)
Total expenses charged through the Income Statement	(0.9)	(0.9)

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2018 £m	2017 £m
Actual return less interest income on scheme assets	**0.7**	17.6
Experience gains arising on scheme liabilities	**(0.1)**	0.1
Changes in assumptions underlying the present value of the scheme liabilities:		
– Financial assumptions	**6.0**	(24.6)
Total amounts recognised in the Statement of Comprehensive Income	**6.6**	(6.9)

The amounts recognised in the Balance Sheet are as follows:

Analysis of movements in scheme assets

	2018 £m	2017 £m
Beginning of the year	**164.2**	145.2
Exchange differences	**(1.9)**	1.4
Expected return on scheme assets	**3.4**	4.6
Actual return less interest income on scheme assets	**1.1**	17.6
Contributions paid	**4.6**	4.6
Benefits paid	**(23.3)**	(9.2)
End of the year	**148.1**	164.2

Analysis of movement in scheme liabilities

	2018 £m	2017 £m
Beginning of the year	**(195.6)**	(172.7)
Exchange differences	**2.0**	(2.1)
Current service cost (included within staff costs)	**(0.2)**	(0.4)
Settlement (included within staff costs)	**–**	0.3
Interest on scheme liabilities	**(4.5)**	(5.4)
Experience gains	**(0.1)**	0.1
Changes in assumptions	**6.0**	(24.6)
Benefits paid	**23.3**	9.2
End of the year	**(169.1)**	(195.6)

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Analysis of movement in Balance Sheet liability

	2018 £m	2017 £m
Beginning of the year	**(31.4)**	(27.5)
Exchange differences	**0.1**	(0.7)
Income Statement expense	**(0.9)**	(0.9)
Statement of Comprehensive Income items	**0.6**	17.7
Changes in assumptions	**6.0**	(24.6)
Contributions paid	**4.6**	4.6
Net deficit in the schemes	**(21.0)**	(31.4)

Cumulative actuarial losses on pension schemes recognised in reserves total £30.8m (2017: £37.4m).

	2018 IAS 19 £m	2017 IAS 19 £m	2016 IAS 19 £m	2015 IAS 19 £m	2014 IAS 19 £m
Present value of defined benefit obligations	**(169.1)**	(195.6)	(172.7)	(202.0)	(182.7)
Fair value of plan assets	**148.1**	164.2	145.2	162.2	142.7
Deficit in the plan	**(21.0)**	(31.4)	(27.5)	(39.8)	(40.0)
Experience adjustments on plan liabilities	**5.9**	(24.5)	10.8	(20.8)	(1.4)
	3.5%	(12.5%)	6.3%	(10.3%)	(0.8%)
Experience adjustments on plan assets	**1.1**	17.6	4.4	18.6	(0.8)
	0.7%	10.7%	3.0%	11.5%	(0.6%)

26. SHARE CAPITAL

	2018 £m	2017 £m
Allotted, issued and fully paid		
153,608,702 (2017: 152,350,819) shares of 5p each	**7.7**	7.6

The movement in share capital relates to the exercise of share options (note 27). The Company has one class of ordinary shares which carry no rights to fixed income.

Notes on the accounts
continued

27. SHARE OPTIONS

Potential issues of ordinary shares

Certain senior managers and other staff hold options to subscribe for shares in the Company at prices ranging from nil pence per share to 159.0 pence per share under share option 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	Number of options 2018	Number of options 2017
Performance share plan	2012	nil pence per share	up to 3 September 2022	–	85,158
Performance share plan	2013	nil pence per share	up to 23 July 2023	10,000	15,500
Performance share plan	2014	nil pence per share	up to 22 July 2024	72,682	1,227,820
Performance share plan	2015	nil pence per share	up to 22 July 2025	619,626	697,819
Performance share plan	2016	nil pence per share	up to 8 July 2026	600,583	650,441
Performance share plan	2017	nil pence per share	up to 9 August 2027	461,636	–
Sharesave option plan 3-year	2015	159.00p	up to 1 March 2019	386,570	435,561
				2,151,097	3,112,299

During the year the following options were exercised; 85,158 options under the 2012 Performance share plan; 5,500 options under the 2013 Performance share plan; 1,155,138 options under the 2014 Performance share plan; and 12,087 options under the 2015 3-year Sharesave option plan.

All other movements from 2017 are expired or lapsed options and new grants. As at 31 March 2018, 386,570 options were exercisable under the 2015 3-year Sharesave option plan; 10,000 options were exercisable under the 2013 Performance share plan; and 72,682 options were exercisable under the 2014 Performance share plan.

The Group operates several share option schemes. Options are exercisable at a price equal to the average quoted market price of the Group's shares on the date of grant. Options are forfeited if the employee leaves the Group through resignation or dismissal before the options vest.

Equity settled share options are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed over the vesting period, based upon the Group's estimate of shares that will eventually vest.

There are no cash-settled share options.

Fair value is measured by use of a Black Scholes model according to the relevant measures of performance. The models include adjustments, based upon management's best estimate, for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived from models based upon these assumptions and other assumptions identified below.

The Group recognised total expenses of £1.9m (2017: £1.9m) related to equity-settled share-based payments. This expense includes the charge for new options granted during the year net of release of charge for the options for which it has been concluded that vesting criteria will not be met.

Long-Term Incentive Plan

The Company has a long-term incentive plan that operates based on the 2011 Performance Share Plan.

Options granted in 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 relate to the 2011 incentive plan known as the Scapa Group plc 2011 Performance Share Plan, details of which can be found in the Directors' Remuneration Report contained in these accounts.

27. SHARE OPTIONS CONTINUED

The following tables show the inputs to the model used to calculate the fair value of equity-settled share options granted during the years ended 31 March 2018 and 31 March 2017 respectively:

Year ended 31 March 2018	Performance share plan awarded 9 Aug 2017
Weighted average share price (p)	**474**
Weighted average exercise price (p)	**Nil**
Weighted average fair value of options granted (p)	**474**
Expected volatility (%)	**n/a**
Expected life (months)	**36**
Risk free rate (%)	**n/a**

Year ended 31 March 2017	Performance share plan awarded 8 Jul 2016
Weighted average share price (p)	256
Weighted average exercise price (p)	Nil
Weighted average fair value of options granted (p)	256
Expected volatility (%)	n/a
Expected life (months)	36
Risk free rate (%)	n/a

The expected volatility is based upon the historical volatility of the Group's share price over the expected life of the option.

Sharesave

The Scapa Group 2011 Sharesave Scheme is an Inland Revenue approved Save-As-You-Earn (SAYE) share option scheme pursuant to which 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 three or five years under an approved savings contract are granted options to subscribe for shares in the Company at a discounted exercise price. The maximum amount that can be saved by a participant is £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%.

27. SHARE OPTIONS CONTINUED

The movement in total outstanding options is provided below:

	SAYE plan		Performance share plan	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at 31 March 2016	547,329	149.3p	4,889,911	Nil
Granted during the year	–	–	765,405	Nil
Exercised during the year	(57,878)	66.9p	(2,259,513)	Nil
Forfeited and lapsed during the year	(53,890)	159.0p	(719,065)	Nil
Outstanding at 31 March 2017	435,561	159.0p	2,676,738	Nil
Granted during the year	–	–	489,405	Nil
Exercised during the year	(12,087)	159.0p	(1,245,796)	Nil
Forfeited and lapsed during the year	(36,904)	159.0p	(155,820)	Nil
Outstanding at 31 March 2018	**386,570**	**159.0p**	**1,764,527**	**Nil**
Weighted average contractual remaining life:				
31 March 2018	**0.4 years**			**8.1 years**
31 March 2017	1.4 years			8.0 years

The weighted average share price at the date of exercise for share options exercised during the year was 451.1p.

Scapa Group 2015 Value Creation Plan

The Company set up the Value Creation Plan (VCP) in 2015/16 to reward participants for creating value through growth in the Company's share price. If defined share price targets are met on defined dates, the growth in excess of £1.95 (up to a maximum of £5.00) will be shared by the Plan's participants. The total amount awarded to participants in the Plan has been set as 5% of the number of shares in issue. The earliest opportunity to exercise rights under the VCP is April 2020. The first measurement date is 31 March 2018 where the share price target is £3.00. The second measurement date is 31 March 2020 where the share price target is £4.00. Any rights obtained in March 2018 must be held for 24 months before exercise. Any right obtained in March 2020 must be held for 12 months before exercise.

The first tranche of the VCP has vested with the gateway share price of £3.00 having been exceeded on 31 March 2018. Pursuant to the VCP rules, any vested amount will be reduced by amounts vesting under the PSP schemes in financial years 2018, 2019 and 2020 respectively.

The VCP will be equity settled and a charge has been calculated under IFRS 2 and applied in the current year. In determining the likelihood of the VCP vesting for the IFRS 2 charge, the Company used a simulation model to predict the various outcomes of share price at the target dates. The main assumptions used in the model were the expected volatility, expected dividends payable over the period, the risk free rate of return and the granting and vesting of other LTIP awards which are deducted from any VCP payment. These assumptions were all based on historical data as the best estimate of future outcome.

28. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW, AND RECONCILIATION OF NET CASH

All on continuing operations	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Operating profit	**30.7**	23.8
Adjustments for:		
Depreciation and amortisation	**9.6**	9.9
Profit on disposal of land and buildings	**(6.9)**	–
Exceptional pension settlement	**–**	(0.3)
Impairment of tangible fixed assets	**1.8**	0.4
Pensions payments in excess of charge	**(4.4)**	(4.3)
Share options charge	**1.9**	1.9
Grant income released	**(0.1)**	–
Changes in working capital:		
Inventories	**(4.5)**	1.3
Trade debtors	**(2.0)**	(1.6)
Trade creditors	**8.0**	(1.4)
Changes in trading working capital	**1.5**	(1.7)
Other debtors	**(2.0)**	(0.7)
Other creditors	**(2.3)**	2.1
Deferred consideration	**(0.1)**	(0.1)
Net movement in environmental provisions	**(0.2)**	–
Net movement in reorganisation provisions and leasehold commitments	**0.4**	(0.2)
Net movement in other provisions	**1.2**	(1.7)
Cash generated from operations	**31.1**	29.1
Cash generated from operations before exceptional items	**34.7**	32.7
Cash outflows from exceptional items	**(3.6)**	(3.6)
Cash generated from operations	**31.1**	29.1

Analysis of cash and cash equivalents and borrowings

	At 1 April 2017 £m	Cash flow £m	Exchange movement £m	Non-cash movement £m	At 31 March 2018 £m
Cash and cash equivalents	12.1	6.9	(0.9)	–	**18.1**
Borrowings within one year	(1.2)	0.1	0.1	–	**(1.0)**
Borrowings after more than one year	(27.0)	3.2	2.3	0.6	**(20.9)**
Total borrowings	(28.2)	3.3	2.4	0.6	**(21.9)**
Total	(16.1)	10.2	1.5	0.6	**(3.8)**

29. COMMITMENTS

Capital commitments

The amount contracted but not provided for in the accounts at 31 March 2018 was £11.2m (2017: £1.3m).

At 31 March 2018 a total of £2.1m (2017: £0.3m) was authorised but not yet contracted.

Operating lease commitments

At 31 March 2018 the Group has lease agreements in respect of various assets for which present value of future minimum lease payments extend as follows:

	2018		2017	
Commitments under leases:	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Within one year	3.2	0.6	2.7	0.7
More than one year and less than five years	5.2	1.2	5.3	0.6
After five years	1.7	–	2.4	–
Total operating lease commitments	10.1	1.8	10.4	1.3

30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2018 £m	2017 £m	2018 £m	2017 £m
Within one year	0.1	0.1	0.1	0.1
In the second to fifth years inclusive	0.1	0.1	0.1	0.1
Present value of lease obligations	0.2	0.2	0.2	0.2

The present value of minimum lease payments is denominated in the following currencies:

	Minimum lease payments	
	2018 £m	2017 £m
Pounds Sterling	–	0.1
US Dollar	0.2	0.1
	0.2	0.2

It is Group policy to lease certain fixtures and equipment under finance leases. The Group has lease agreements in the US with lease periods to 2018 and average borrowing rates of 5.1% (2017: 6.5%). Interest rates are fixed at contract date. All leases are on fixed repayment terms and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the related assets.

31. POST BALANCE SHEET EVENT

Following the fatal incident at Dunstable in April 2018, there is an ongoing investigation by the HSE and accordingly it is premature to determine whether or not there will be a financial impact.

Five year summaries

FIVE YEAR FINANCIAL SUMMARY (UNAUDITED)

	2018 £m	2017 £m	2016 £m	2015 £m	2014 (restated) £m
Group revenue	**291.5**	279.6	246.7	236.0	226.1
Group profits/(losses)					
Profit before taxation and exceptional items	**28.7**	22.8	16.4	14.2	11.0
Exceptional items (income/(charges))	**0.1**	(1.0)	(6.6)	(0.5)	0.2
Profit before taxation	**28.8**	21.8	9.8	13.7	11.2
Taxation	**(5.3)**	(4.2)	(3.7)	(4.2)	(17.9)
Profit/(loss) after taxation	**23.5**	17.6	6.1	9.5	(6.7)
Headline earnings/(loss) per share (p)	**15.4**	11.6	4.1	6.5	(4.6)
Net cash equivalents	**(3.8)**	(16.1)	(2.6)	(2.2)	5.4
Shareholders' funds – equity	**118.9**	100.4	77.7	61.8	47.7
Net assets per share (p)	**77.7**	66.4	52.4	42.1	32.6

EXCHANGE RATES (UNAUDITED)

	2018	2017	2016	2015	2014
US $					
Closing	**1.40**	1.25	1.44	1.48	1.67
Average	**1.33**	1.32	1.50	1.61	1.59
Canadian $					
Closing	**1.81**	1.66	1.87	1.88	1.84
Average	**1.71**	1.72	1.97	1.84	1.68
Euro					
Closing	**1.14**	1.16	1.27	1.37	1.21
Average	**1.14**	1.20	1.36	1.28	1.19

Scapa Group PLC
Parent Company Financial Statements

The separate financial statements of Scapa Group plc are presented on pages 123 to 135.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. They are therefore presented separately to the Group consolidated financial statements which have been prepared under International Financial Reporting Standards.

Company Balance Sheet as at 31 March 2018

	note	31 March 2018 £m	31 March 2017 £m
Non-current assets			
Tangible fixed assets	5	**0.5**	0.6
Investments in subsidiary undertakings	6	**136.9**	136.1
Deferred tax asset	4	**1.1**	1.1
Debtors: amounts due after more than one year	7	**191.2**	182.8
		329.7	320.6
Current assets			
Debtors: amounts due within one year	7	**6.2**	9.0
Cash and cash equivalents		**–**	0.5
		6.2	9.5
Current liabilities			
Creditors – amounts falling due within one year	9	**(6.7)**	(4.9)
Net current (liabilities)/assets		**(0.5)**	4.6
Total assets less current liabilities		**329.2**	325.2
Creditors – amounts falling due after more than one year			
Creditors	9	**(122.4)**	(120.5)
Borrowings	8	**(21.4)**	(27.1)
		(143.8)	(147.6)
Provisions for liabilities and charges	10	**(0.1)**	(0.6)
Net assets excluding pension liability		**185.3**	177.0
Net pension liability	12	**(9.4)**	(16.0)
Net assets		**175.9**	161.0
Shareholders' funds			
Called-up share capital	11	**7.7**	7.6
Share premium		**0.4**	0.4
Other reserves		**10.1**	10.1
Profit and loss account		**157.7**	142.9
Shareholders' funds – equity		**175.9**	161.0

The notes on pages 127 to 135 form part of these financial statements.

The company reported a profit for the financial year ended 31 March 2018 of £4.9m (2017: £5.4m).

The financial statements of Scapa Group plc, registered number 826179, were approved by the Board of Directors and authorised for issue on 22 May 2018. They were signed on its behalf by:

H R CHAE
Group Chief Executive

G S HARDCASTLE
Group Finance Director

Company Statement of Changes in Equity for the year ended 31 March 2018

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 April 2016	7.5	0.4	10.1	129.9	147.9
Profit for the year	–	–	–	5.4	5.4
Actuarial loss on pension schemes	–	–	–	(2.4)	(2.4)
Total comprehensive income	–	–	–	3.0	3.0
Issue of shares	0.1	–	–	–	0.1
Share options	–	–	–	1.9	1.9
Equity-settled share based payments	–	–	–	(0.1)	(0.1)
Group dividends received	–	–	–	10.8	10.8
External dividends	–	–	–	(2.6)	(2.6)
Balance at 31 March 2017	7.6	0.4	10.1	142.9	161.0
Profit for the year	–	–	–	4.9	4.9
Actuarial gain on pension schemes	–	–	–	7.0	7.0
Total comprehensive income	–	–	–	11.9	11.9
Issue of shares	0.1	–	–	–	0.1
Share options	–	–	–	1.9	1.9
Equity-settled share based payments	–	–	–	(0.1)	(0.1)
Group dividends received	–	–	–	4.1	4.1
External dividends	–	–	–	(3.0)	(3.0)
Balance at 31 March 2018	**7.7**	**0.4**	**10.1**	**157.7**	**175.9**

Statement of accounting policies

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention and in accordance with applicable law. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year in dealing with items that are considered material in relation to the Company's financial statements. In accordance with Section 408 of the Companies Act 2006 a separate profit and loss account dealing with the results of the Company has not been presented.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

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

GOING CONCERN

The Directors have at the time of approving the financial statements a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on page 66 and in the Viability Statement on page 19.

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, equipment, fixtures and computer systems to estimated residual value over a period of 5–20 years.

TAXATION

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Temporary differences are differences between the Company's taxable profits and losses and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been substantively enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

DIVIDENDS

Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the Annual General Meeting.

PROVISIONS

Provisions are made in accordance with IAS 37 where an obligation exists for a future liability in respect of a past event and where the amount of obligation can be reliably estimated.

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 impairment in the carrying value of a tangible or intangible fixed asset, an impairment review is carried out using cash flows from approved forecasts and projections discounted at the Group's weighted average cost of capital.

Statement of accounting policies
continued

PENSION COSTS

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income.

For defined benefit schemes, the Company recognises plan assets where they are separable, solely for payment to the fund or to fund employee benefits, not available to the Company's creditors in bankruptcy and where the assets cannot be returned to the Company unless all employee benefit obligations are met.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained annually and are updated at each Balance Sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the Balance Sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

SHARE-BASED PAYMENTS

The Company has applied the requirements of IFRS 2 Share-based Payment.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange at the Balance Sheet date. Exchange differences on borrowings (including differences arising due to currency swaps) taken out to hedge overseas equity investments and on long-term loans which are considered equivalent to equity are taken to the translation reserve. All other differences are taken to the profit and loss account.

CASH FLOW STATEMENT

The Company is a wholly owned subsidiary of Scapa Group plc and is included in the consolidated financial statements of Scapa Group plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 101.

CONSOLIDATION

Consolidated accounts for the Company are prepared under International Accounting Standards and as a result these financial statements present information about the Company only.

RELATED PARTIES

The Directors' Annual Remuneration Report can be found in the Annual Report on pages 61 to 67. The pension scheme is a related party to the Company; there were no contributions outstanding at the year end. There are no other related party transactions in the current or prior year. The Company is exempt under the terms of FRS 101 paragraph 8(j) from disclosing related party transactions entered into between two or more members of a group provided that any subsidiary which is party to a transaction is wholly owned by a member.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the course of preparing the Company's financial statements, no judgement or key source of estimation uncertainty have been identified.

Notes on the accounts

1. PROFIT AND LOSS ACCOUNT

The Company's profit in the year is £4.9m (2017: £5.4m). As permitted by section 408 of the Companies Act 2006 a separate profit and loss account has not been presented. Profit/(loss) on ordinary activities before taxation is stated after (charging)/crediting:

	2018 £m	2017 £m
Depreciation of tangible fixed assets, owned	**(0.2)**	(0.2)
Foreign exchange (losses)/gains	**(1.1)**	0.5
Directors' and employee costs	**(7.0)**	(7.8)

2. FEES PAYABLE TO THE COMPANY'S AUDITOR

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Auditor's remuneration		
– Audit of the Company	**117.0**	99.0
– Taxation advisory services	**–**	2.0
– Corporate finance services	**217.0**	193.0
– Audit related assurance services	**10.0**	–
– Other non-audit services	**5.0**	–
	349.0	294.0

Total audit fees were £117,000 (2017: £99,000). Total non-audit fees payable to the auditor were £232,000 (2017: £195,000).

3. STAFF COSTS

	2018 £m	2017 £m
Wages and salaries	**3.7**	4.5
Social security costs	**2.0**	1.8
Share options granted to directors and employees	**1.2**	1.3
Pension costs – defined contribution plans	**0.1**	0.2
	7.0	7.8

	2018	2017
Average employee numbers	**30**	32

Details of the highest paid Director can be found on page 59.

Notes on the accounts
continued

4. TAXATION

Income tax credit

	2018 £m	2017 £m
Current tax:		
Tax on trading activities – current year	(0.8)	0.9
Tax on trading activities – prior year	–	–
Total current tax	(0.8)	0.9
Deferred tax:		
Tax on trading activities – current year	–	0.2
Total deferred tax	–	0.2
Tax (charge)/credit for the year	(0.8)	1.1

The actual tax on the Company's profit or loss before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2018 £m	2017 £m
Profit on ordinary activities before tax	5.7	4.4
Tax charge at 19% (2017: 20%)	(1.1)	(0.9)
Movements to unprovided deferred tax	0.4	1.4
Income not taxable and other deductions	–	0.9
Items not deductible for tax purposes and other taxable items	(0.1)	(0.1)
Adjustments in respect of prior years	–	(0.2)
Actual tax (charge)/credit for the year	(0.8)	1.1

Finance Act 2016, which was subsequently enacted on 15 September 2016, includes provisions to reduce the corporation tax rates to 19.0% with effect from 1 April 2017 and 18.0% with effect from 1 April 2020. In addition, Finance Bill 2017 was substantively enacted on 6 September 2017 which introduced a further reduction in the main rate of corporation tax from 18.0% to 17.0% from April 2020. There is no expiry date on timing difference, unused tax losses or tax credits.

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

	2018 £m	2017 £m
Deferred tax assets:		
– Retirement benefit liabilities	1.1	1.1

Tax assets amounting to £4.9m (2017: £6.6m) have not been recognised due to the uncertainty over the utilisation of the underlying tax losses in the UK.

Deferred tax is only recognised in respect of entities that made a trading profit in the current and preceding year.

Movement in deferred tax	2018 £m	2017 £m
Beginning of the year	1.1	0.9
Income Statement charge	–	0.2
End of year	1.1	1.1

4. TAXATION CONTINUED

Deferred tax items have not been recognised in respect of the following items	2018 £m	2017 £m
Accelerated capital allowances	**1.2**	1.3
Temporary differences	**0.5**	0.8
Pensions	**0.6**	1.9
Tax losses	**2.6**	2.6
Total	**4.9**	6.6

5. TANGIBLE FIXED ASSETS

	Plant, equipment, fixtures and computer systems £m
Cost	
At 1 April 2017	13.0
Additions	0.1
At 31 March 2018	13.1
Depreciation	
At 1 April 2017	(12.4)
Depreciation	(0.2)
At 31 March 2018	(12.6)
Net book value at 31 March 2018	**0.5**
Net book value at 31 March 2017	0.6

6. INVESTMENTS

	Shares in Group undertakings £m
Cost	
At 1 April 2017	136.1
Capital contribution	0.8
Net book value at 31 March 2018	**136.9**
Net book value at 31 March 2017	136.1

No further investment impairment was required at 31 March 2018.

The recoverable amount has been determined on a value in use basis on each cash-generating unit using the management approved 12-month forecasts for each cash-generating unit. The base 12-month projection is inflated by 3.0% up to year 5, which management believes does not exceed the long-term average growth rate for the industry, and then is subject to a 1% growth and costs inflation through to year 20, with a terminal value calculated on a perpetuity basis.

These cash flows are discounted at a pre-tax discount rate of 10.0% (2017: 10.0%) and adjusted for specific risk factors that take into account the sensitivities of the projection.

The Company's subsidiaries are shown in note 14.

Notes on the accounts
continued

7. DEBTORS

	2018 £m	2017 £m
Amounts due within one year:		
Amounts owed by subsidiary undertakings	4.0	7.5
Group relief receivable	–	1.0
Other debtors	0.2	0.2
Prepayments and accrued income	2.0	0.3
Total amounts due within one year	6.2	9.0
Amounts due after more than one year:		
Amounts owed by subsidiary undertakings	191.2	182.8

8. BANK LOANS AND OVERDRAFTS

The Group's revolving credit facility was due to expire in June 2018. During the year the Group secured replacement banking facilities from a revised banking syndicate and entered into a new revolving credit facility (RCF) on 31 October 2017. The principal features of the facility are:

- the initial committed value of the facility is £70m
- there is access to an accordion of £30m
- it is unsecured
- it is repayable in October 2022
- the interest payable on drawings under the loan is based on inter-bank interest plus a sliding scale margin determined by the Group's leverage; the margin is currently 1.1%
- the facility has two covenants – the ratio of EBITDA to interest paid must be above 4:1, and the ratio of EBITDA to net debt must be less than 3.0.

The borrowings of the Company under the facility at the Balance Sheet date were as follows:

	2018 £m	2017 £m
Bank loans	21.4	27.1

The effective interest rate at the Balance Sheet date was as follows:

	%
31 March 2018 Bank loans	**3.1%**
31 March 2017 Bank loans	2.4%

	2018 £m	2017 £m
Bank loan drawdown	21.4	27.1

The Company, along with other subsidiaries in the Group, has the following undrawn borrowing facilities, being the unused portion of the £70.0m committed facility:

	2018 £m	2017 £m
Floating rate	48.6	32.9

9. CREDITORS

	2018 £m	2017 £m
Amounts due within one year:		
Amounts owed to subsidiary undertakings	0.4	0.4
Other creditors, including taxation and social security	6.3	4.5
Total amounts due within one year	6.7	4.9
Amounts due after more than one year:		
Amounts owed to subsidiary undertakings	122.4	120.5

The terms of loans owed to subsidiary undertakings vary; expiry of these ranges from 2018–2020.

10. PROVISIONS

	2018 £m	2017 £m
At 1 April	0.6	0.5
Additions in the year	0.2	0.3
Utilised in the year	(0.7)	(0.2)
At 31 March	0.1	0.6

11. SHARE CAPITAL

	2018 £m	2017 £m
Allotted, issued and fully paid		
153,608,702 (2017: 152,350,819) shares of 5p each	7.7	7.6

The movement in share capital relates to share options (see note 27 of the Group accounts).

	Number of shares
March 2017	152,350,819
SAYE and performance share plan options exercised in the year	1,257,883
March 2018	**153,608,702**

Share options

Potential issues of ordinary shares and share options for the Company are disclosed in note 27 of the Group accounts.

12. RETIREMENT BENEFIT OBLIGATIONS

(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 2018 was £0.1m (2017: £0.2m).

(b) Defined benefit schemes

The Company is a sponsoring employer to the Scapa Group plc Pension Scheme, which has the assets and liabilities of former UK employees. The scheme has been closed to new members and future accrual since 2007/08 and is wholly funded by the sponsoring employers, Scapa Group plc and Scapa UK Ltd. The assets of the scheme are held separately from the Company under Trust and both the assets and liabilities are held on a non-sectionalised basis. The scheme is managed by a professional trustee.

Notes on the accounts
continued

12. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The IAS 19 Retirement Benefits valuations have been updated from the prior year using formal valuation calculations carried out as at 1 April 2014, in order to assess the liabilities of the schemes at 31 March 2018. Scheme assets are stated at their market value at 31 March 2018.

Set out below are the key financial assumptions used to calculate scheme liabilities under IAS 19.

	2018	2017
Discount rate	**2.50%**	2.45%
Salary rises	**–**	–
Price inflation (RPI)	**3.05%**	3.10%
Price inflation (CPI)	**2.05%**	2.10%
Future pension increases – RPI max 5%	**2.94%**	2.97%
Future pension increases – RPI max 3%	**2.32%**	2.33%
Amount of pension commuted for cash	**25.00%**	25.00%

The salary increase assumption is no longer relevant in the UK as the scheme is closed to future accrual.

The expected investment returns have been calculated using the weighted average of the expected investment returns for the different asset classes. The expected return on investments for the UK scheme is set out in the table below.

The assumptions relating to UK longevity underlying the pension liabilities at the Balance Sheet date are based on standard actuarial mortality tables, with adjustments to reflect actual experience. For the year to 31 March 2018, the IAS 19 calculations have been performed using standard actuarial tables known as S2PA. Future improvements in mortality have been allowed for using the core CMI 2017 model, with a long-term rate of improvement of 1.25% per annum. In the current year these tables have then been adjusted with a loading to reflect the geographic membership profile of the scheme. During the year to March 2016 a postcode mortality exercise was conducted on the scheme's membership. The results of this exercise showed that a best estimate adjustment to the base table used on the 1 April 2014 actuarial valuation was 115% for all members. This assumption, reducing the expected longevity of members, has been used in the March 2018 disclosures.

Actuarial assumption sensitivities

The calculation of the scheme's deficits is sensitive to changes in the underlying assumptions listed above. The following tables show the approximate effect of changes in the key assumptions on the UK scheme's liabilities (and deficit) at the year end. These are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

	2018 £m
Rate of inflation	
Change in the year end liabilities from a 0.5% increase in the assumed rate of inflation	**(3.3)**
Change in the year end liabilities from a 0.5% decrease in the assumed rate of inflation	**3.4**
Discount rate	
Change in the year end liabilities from a 0.5% increase in the assumed rate of discount	**(6.8)**
Change in the year end liabilities from a 0.5% decrease in the assumed rate of discount	**7.5**
Mortality	
Life expectancy of members increases by 1 year	**4.5**
Life expectancy of members decreases by 1 year	**(4.5)**
Current pensioners (years):	
Male life expectancy at age 65	**85.9**
Female life expectancy at age 65	**87.8**
Future pensioners (years):	
Male life expectancy at age 65 (currently aged 45)	**87.3**
Female life expectancy at age 65 (currently aged 45)	**89.3**

12. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

UK scheme	2018 Value £m	2017 Value £m
Overseas equities	16.0	20.2
Corporate bonds	33.2	33.9
Fixed interest government bonds	23.2	21.2
Index-linked government bonds	7.6	8.8
Property	2.0	2.7
Hedge funds	9.6	7.3
Cash and cash equivalents	1.2	1.5
Total market value of assets*	92.8	95.6
Present value of scheme liabilities	(102.2)	(111.6)
Net deficit in the schemes	(9.4)	(16.0)

* No quoted market price in active market for the UK scheme investments for 2018 (2017: same)

The amounts recognised in the Income Statement are as follows:

	2018 £m	2017 £m
Settlement	–	0.2
Total included within staff costs	–	0.2
Interest income on scheme assets less interest on scheme liabilities	(0.4)	(0.4)
Total included within finance costs	(0.4)	(0.4)
Total expenses charged through the Income Statement	(0.4)	(0.2)

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2018 £m	2017 £m
Actual return less interest income on scheme assets	3.0	14.0
Changes in assumptions underlying the present value of the scheme liabilities:		
– Financial assumptions	4.0	(16.4)
Total amounts recognised in the Statement of Comprehensive Income	7.0	(2.4)

Notes on the accounts
continued

12. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The amounts recognised in the Balance Sheet are as follows:

Analysis of movements in scheme assets

	2018 £m	2017 £m
Beginning of the year	**95.6**	84.0
Expected return on scheme assets	**2.2**	2.9
Actual return less expected return on scheme assets	**3.0**	14.0
Benefits paid	**(8.0)**	(5.3)
End of the year	**92.8**	95.6

Analysis of movement in scheme liabilities

	2018 £m	2017 £m
Beginning of the year	**(111.6)**	(97.4)
Settlement (included within staff costs)	**–**	0.2
Interest on scheme liabilities	**(2.6)**	(3.3)
Changes in assumptions	**4.0**	(16.4)
Benefits paid	**8.0**	5.3
End of the year	**(102.2)**	(111.6)

Analysis of movement in Balance Sheet liability

	2018 £m	2017 £m
Beginning of the year	**(16.0)**	(13.4)
Total remeasurements	**7.0**	(2.4)
Expenses in the profit and loss account	**(0.4)**	(0.2)
Net deficit in the schemes	**(9.4)**	(16.0)

	2018 FRS101 £m	2017 FRS101 £m	2016 FRS101 £m	2015 £m	2014 £m
Present value of defined benefit obligations	**(102.2)**	(111.6)	(97.4)	(112.7)	(103.9)
Fair value of plan assets	**92.8**	95.6	84.0	92.0	103.9
Deficit in the plan	**(9.4)**	(16.0)	(13.4)	(20.7)	–
Experience adjustments on plan liabilities	**4.0**	(16.4)	6.4	(10.9)	0.4
Experience adjustments on plan assets	**3.0**	14.0	1.1	14.8	0.1

13. DIVIDEND PER SHARE

A final dividend of 2.4p per share is proposed for the year ended 31 March 2018 (2017: 2.0p). The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these financial statements. The total estimated dividend to be paid is £3.7m.

14. SUBSIDIARY UNDERTAKINGS

As at 31 March 2018 the principal subsidiaries of the Company were:

Holding and management companies	Registered office and country of incorporation	
Scapa Group Holdings GmbH	Nottendorfer Gasse 11, 1030 Wien, Austria	Holding company
Porritts & Spencer Ltd*	997 Manchester Road, Ashton Under Lyne, Manchester, England	Holding company
Scapa Holdings GmbH	Carl-Reuther-Straße 3, 68305, Mannheim, Germany	Holding company
Scapa (HK) Holdings Ltd	Unit 19, 3/F, Tower B, New Manarin Plaza, No 14 Science Museum Road, Kowloon, Hong Kong	Holding company
Scapa Denver (North) Ltd	997 Manchester Road, Ashton Under Lyne, Manchester, England	Holding company
Scapa North America Inc	111 Great Pond Drive, CT, USA	Holding company
Scapa (No2) Ltd	997 Manchester Road, Ashton Under Lyne, Manchester, England	Non-trading
Scapa Blackburn Ltd*	997 Manchester Road, Ashton Under Lyne, Manchester, England	Non-trading
Scapa General Partner Ltd	13 Queen's Road, Aberdeen, Scotland	Non-trading
Scapa Pension Trustees Ltd	997 Manchester Road, Ashton Under Lyne, Manchester, England	Non-trading
Scapa Scottish Ltd Partnership	13 Queen's Road, Aberdeen, Scotland	Non-trading
Scapa Tapes NA (Carlstadt) Inc	111 Great Pond Drive, CT, USA	Non-trading
Technical tapes companies		
Scapa Brasil Ltda	Avenida Francisco Matarazzo, 1720, Sala 2615, Agua Branca, São Paulo, Brazil	
Scapa Tapes North America Ltd	609 Barnet Boulevard, RR 3 Stn.Main, Renfrew, Canada	
Scapa (Shanghai) International Trading Company Ltd	Section D, Building 27, No.500, 2nd East Fute Road, Waigaoqiao Bonded Area, Shanghai, China	
Scapa Tapes (Suzhou) Co. Ltd	4/F, Building 12-3, No.12 Industrial Factory Building, Binhe Road, Suzhou New District, China	
Scapa UK Ltd	997 Manchester Road, Ashton Under Lyne, Manchester, England	
Groupe Scapa France SAS	79 Allée Bernard Palissy, 26001 Valence, France	
First Water Ltd*	997 Manchester Road, Ashton Under Lyne, Manchester, England	
First Water Ramsbury Ltd	997 Manchester Road, Ashton Under Lyne, Manchester, England	
Scapa Deutschland GmbH	Carl-Reuther-Straße 3, 68305, Mannheim, Germany	
Scapa Hong Kong Ltd	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong	
Scapa Tapes India Private Ltd	17/2B3, Pudupakkam Village, Mamallapuram-TK, Kancheepuram Dist, Tamilnadu, 603 103, India	
Scapa Italia SpA	Via Vittorio Emanuele 2nd 27, 13030 Ghislarengo VC, Italy	
Scapa Korea Co. Ltd	702, DooSan Venture Digm, 126-1, PyeongChon-Dong DongAn-Gu, AnYang-City, GyeongGi, 431-755 Korea	
Scapa Tapes Malaysia Sdn Bhd	8 Jalan Kartunis U1/47 Temasya Ind Park, 40150 Shah Alam, Malaysia	
Scapa (Schweiz) AG	Feldmuhlestrasse, 9400 Rorschach, Switzerland	
Scapa Indutrade (Schweiz) AG	Feldmuhlestrasse, 9400 Rorschach, Switzerland	
Scapa Tapes North America LLC	111 Great Pond Drive, CT, USA	
EuroMed Inc	25 Corporate Drive, Orangeburg, NY 10962, USA	
Markel Industries Inc	135A Sheldon Road, Manchester, CT, USA	
BioMed Laboratories LLC	8181 Eastpoint Drive, Dallas, TX, 75227, USA	
Minority shareholdings		
Edixomed Ltd**	England	

All the shareholdings are ordinary shares and the subsidiaries listed are wholly owned and are incorporated in and operate from the countries named, with the exception of entities under minority shareholdings.

* Denotes the undertakings which are held directly by Scapa Group plc

** Edixomed Ltd is a clinical stage biopharmaceutical company. The company aims to take early stage products through stages of clinical and commercial development to maximise value to the business. The investment is held at cost

Company information

KEY DATES

Next Annual General Meeting	17 July 2018
Next interim results	20 November 2018
Next year end (to be reported)	31 March 2019
Next preliminary announcement	21 May 2019
Next Annual Report due	June 2019

SHAREHOLDER INFORMATION

Shareholder enquiries should be directed to the Company's registrars, Link Asset Services, at their Customer Support Centre, details as follows:

By phone: UK – 0871 664 0300, from overseas call +44 (0) 871 664 0300 – calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate.
The helpline is open between 09:00 to 17:30, Monday to Friday, excluding public holidays in England and Wales.
By email: enquiries@linkgroup.co.uk
By post: Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Further information regarding the various services offered by Link Asset Services, including the Share Portal and Share Dealing Service, can be obtained from the above or directly from Link's website www.signalshares.com or www.linksharedeal.com

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