

APPENDIX A

CORPORATE GOVERNANCE REPORT

It is Scott Bader's aim to sustain best practice in our standards of business integrity, including our commitment to maintaining the highest standards of corporate governance and ethics throughout the Group. One way Scott Bader demonstrates its commitment to corporate governance is through our voluntary adoption of the UK Combined Code on Corporate Governance.

The Board and its role

The Group does not have any institutional external shareholders; however it considers three governing bodies in Scott Bader as carrying out this role: the Trustees, UK Community Council and the Commonwealth Board of Management.

In 2004 Scott Bader established the Members' Assembly an international democratic forum as the means by which Commonwealth members can hold the Group Board to account. It was established on a two-year trial and met twice during 2005. Once successfully established our intention is that many of the UK Community Council's powers will be transferred to the Members' Assembly. Effective democratic engagement at a country level will be via community councils and Members' Assembly representatives.

The Group Board is accountable to the Group's trustee shareholders for good business performance and good governance. Scott Bader has no external shareholders; its shares are held in trust for current and future staff. The principles of industrial democracy are the foundations for Scott Bader's governing bodies.

Throughout the year under review, the Group Board considers that it complied with the principal aspects of the Combined Code whilst also satisfying the principles of being an industrial democracy.

The Group Board is collectively responsible for the success of the Group. Within the overall strategy and objectives agreed by the Group Board, day to day management is delegated to the Group Managing Director and Group Executive Team (ET). The Group Board reviews the operational performance of the Group on a regular basis and also exercises a number of reserved powers which include:

- Responsibility for setting the company's strategic direction, major business goals and agreeing the Group Strategic Plan.
- Approving the annual budget, delegated authority levels and capital expenditure proposals.
- Monitoring business performance.
- Approving any major changes to the subsidiary companies including loans, investments and disinvestments.
- Control of the Group's land, buildings, guarantees and intellectual property.
- Approving policies for remuneration within the company, including non-pay benefits
- Treasury management, including bank deposits and borrowings
- Recommendations to Members in General Meeting concerning the annual distribution of audited Company profits.
- The appointment and removal of the Chairman, Group Managing Director, executive directors, external non-executive Directors and the Company Secretary.

The Board is also involved in approving policies for employee development, reward and succession. The objective of the Directors and senior management is to safeguard and increase the value of the business and assets of the Group. Part of this objective requires the development of relevant policies and appropriate internal controls to ensure proper management of the Group's resources and the identification of risks, which might serve to undermine them.

The Board have general responsibility for taking such steps as is reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Statement of Directors' Responsibilities

The Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Group and of the profit or loss for the period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Internal Control

The Group Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. During 2005 it was identified that the Group Board could strengthen its internal control process and work is well underway to identify and manage risk more clearly. However, it is recognised that a system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, not absolute assurance, particularly against misstatement or loss. Given the size of the Group the Board does not consider it necessary to have a specific internal audit function. The Group's senior management, in conjunction with external advisers therefore periodically review the suitability of current systems and reports findings to the Audit Committee.

Business managers are responsible for managing business risks in their operating unit. Continuing accreditation from external agencies is seen as another key measure of compliance.

The Group Board confirms that it has reviewed the effectiveness of the system of internal controls for the year ended 31 December 2005 and that this review covered all material controls including financial, operational and compliance controls and risk management systems.

The Group Board meets quarterly and additionally as necessary to consider matters, which are time critical. The Group Board receives a monthly summary of financial and trading results, major capital expenditures, information on Group borrowing and other material issues. The Group's quarterly results are shared with all staff.

The Chairman ensures Directors receive accurate, timely and clear information with all papers for meetings of the Group Board and its Committees issued in advance by the Company Secretary who is responsible for good information flows within the Group Board and its Committees, and between non-executive Directors and management.

The Group Board also takes account of significant social, environmental and ethical matters that relate to Scott Bader's businesses and reviews annually Scott Bader's corporate social responsibility. Please see our Corporate Social Responsibility Statement on page 9 of the Annual Financial Statements for the year ended 31 December 2005.

Board operation

The division of responsibilities of the Chairman and Chief Executive are clearly set out in writing and approved by the Group Board and can be summarised as:

- The Chairman leads the Group Board and is responsible for ensuring its effectiveness and ensuring that all stakeholder interests are considered and
- The Chief Executive reports to the Group Board and has direct charge of the Group on a day-to-day basis.

All the Group Board and in particular the Chairman and Managing Director are in regular contact with representatives of the elected bodies for both consultation and accountability purposes. The Chairman is independent.

With the Group Managing Director and the Company Secretary, the Chairman ensures the Group Board is kept properly informed, is consulted on all issues reserved to it and that its decisions are made in a timely and considered way that enables the Directors to fulfil their fiduciary duties.

All Directors take decisions objectively in the interests of the Group and are mindful of the guiding principles of Scott Bader. The non-executive Directors consider the interests of all of those who have a stake in the Group, ensuring full, objective examination and discussion of its strategies and plans. They scrutinise the performance of management and bring an independent judgement to bear on any issues.

The Group has purchased insurance to cover its Directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

The Committees, to which the Group Board delegates its responsibilities and provides sufficient resources with which to carry out their duties, are the Nomination Committee, the Remuneration Committee and the

Audit Committee. Their terms of reference are determined by the Group Board, documented and available on request from the Company Secretary.

Only members of the Committees have a right to attend their meetings although others are invited to attend as appropriate to the business being conducted. Full details of the Committees' activities appear later in this report.

Board Composition

The Group Board, which operates as a single team, is currently made up of an independent non-executive Chairman, the Managing Director, three other executive Directors and six non-executive Directors. Two of the non-executive Directors are considered to be independent by the Group Board and four of the non-executive Directors are staff appointed democratically by the staff of Scott Bader and therefore clearly fail the independence test. The Board considers this to be an appropriate balance between the requirements of the Combined Code and industrial democracy.

The Group Board is satisfied that its composition ensures that no individual or group of individuals dominate the decision-making process. Biographical details are set out on page 8. There are currently two executive Director vacancies on the Group Board.

During the year five new Directors joined the Group Board and their election or appointment procedure is described below. Four Directors resigned during the year and one staff elected Director retired. The details appear on page 9 of the Annual Financial Statements for the year ended 31 December 2005. A new Company Secretary was appointed on 1 September 2005 following the retirement of Denise Sayer on the same date. The Company Secretary acts as Secretary to the Group Board and to the Nomination, Remuneration and Audit Committees. The appointment and removal of the Company Secretary is a matter for the whole Group Board.

Election to the Board

There is a formal, rigorous and transparent procedure for the appointment of new external Directors to the Group Board and of senior Group executives based on merit, using objective criteria and conducted by the Nomination Committee which, when appropriate, makes recommendations to the Group Board. Details of this process and the workings of the Nomination Committee can be found later in this report. The four staff-elected Directors are elected democratically through either the UK Community Council or the Scott Bader Commonwealth. The Nomination Committee is not involved in the appointment process for any of the staff-elected Directors. Rather than solely through the AGM, all governing bodies in Scott Bader are given the opportunity to meet or be involved in the recruitment of new external Directors and approve their proposed appointment.

On appointment, Directors take part in an induction programme when they receive information about Scott Bader, the role of the Group Board, terms of reference and membership of Committees, the Group's corporate governance procedures, and the latest financial information about the group. A series of seminars are held to ensure Directors are aware of their duties. For internal directors where necessary more rigorous training is undertaken. Site visits and meetings supplement this initial training with members of the Executive Team and other key senior executives.

The Group's Articles of Association require that all executive and independent non-executive Directors are subject to re-election every three years. These re-appointments require the subsequent approval of the UK Community Council. At the end of an initial term of three years the appointment may be continued by mutual agreement. Each non-executive Director is provided, upon appointment, with a letter setting out the terms of his or her appointment, including membership of Group Board Committees, the fees to be paid and the time commitment expected from the Director. The letter also covers such matters as the confidentiality of information, the payment of expenses and the provision of professional support.

Normally independent non-executive Directors serve two three-year terms however there may be circumstances where such Directors are invited to remain on the Group Board for a further three years. Any such invitation would be subject to normal approval procedures. Staff-elected Directors serve for a three or four year period only and can be re-elected only after a period of time off the Group Board. All Directors and senior executives must also be members of the Scott Bader Commonwealth at all times and must therefore demonstrate their commitment to work according to the values expressed in the Constitution.

The Chairman and executive Directors have service agreements, which are approved by the Remuneration Committee.

Board Evaluation

During 2005 the Group Board, led by the Chairman, carried out a formal evaluation of Group Board and its Committees, via a questionnaire and discussion with Directors. The Group Board considered the results of that exercise in March 2005 and a number of actions agreed, to be monitored by the Chairman. A performance evaluation will be carried out annually.

The individual performance of Directors was also evaluated which for the independent non-executive Directors was at one-to-one session with the Chairman. The Chairman provides feedback to the relevant manager on the performance of the four staff who serve on the Group Board. The Remuneration Committee monitors the performance of the executive Directors. All the Directors, led by the Graeme Crombie as the Senior Independent Director, review the performance of the Chairman annually.

Committees of the Group Board

The Group Board has three principal Committees, Remuneration, Audit and Nomination which all report to the Group Board. The duties of the Committees are set out in formal terms of reference and are available on request from the Company Secretary. The Audit Committee meets at least twice per year and the Remuneration Committee and Nomination Committee meet at least annually. However all Committees meet as and when required.

The following table shows the attendance of Directors at meetings of the Group Board and Audit, Remuneration and Nomination Committees during the 2005 financial year.

Name of Director	Role	Group Board		Remuneration Committee		Audit Committee		Nomination Committee	
		Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
R Coxon	Chairman	5	5	3	3	0	0	0	0
G Crombie	Independent non-executive	5	3*	3	3	2	1	0	0
T Phillips	Independent non-executive	5	4	3	3	2	2	9	9
P Bruce	Group Managing Director	5	5	0	3 by invitation	0	2 by invitation	7	6
A Forrester	Group Finance Director	1	1	0	0	0	0	0	0
C Dacombe	Staff-elected Director	1	1	0	1 by invitation	0	0	1	1
M Cooper	Staff-elected Director	5	4	0	0	2	1	9	7
G Manley	Staff-elected Director	2	2	0	0	1	0	0	0
J McKeever	Staff-elected Director	5	5	0	0	1	0	0	0
J Wojakowski	Staff-elected Director (retired)	4	4	2	1	2	2	8	7
A Senouci	Staff-elected Director (resigned)	3	3	0	0	1	1	0	0
P Noble	Executive Director (resigned)	5	5	0	0	0	0	0	0
B Neidert	Executive Director (resigned)	3	3	0	0	0	0	0	0
Keith Grace	Executive Director (resigned)	2	1	0	0	1	0	0	0
Allan Bell	Executive Director (retired)	1	1	0	0	0	0	2	2

*Absent for medical reasons

Remuneration Committee

The principal function of the Committee is to determine on behalf of the Group Board the remuneration of the executive Directors and senior management team. Remuneration of any Director has to be approved by the UK Community Council. The remuneration of the independent non-executive Directors and the Chairman is a matter for the Group Board as a whole and individuals absent themselves from the meeting if their own remuneration is being considered.

The Remuneration Committee is composed of the three external non-executive Directors, including the Chairman, who chairs the Committee. The Managing Director, head of Group HR and one staff-elected Director also attend the meeting by invitation if appropriate. The Committee met three times during the year; its work included the following:

- Setting and reviewing the key performance objectives to be delivered by the Group Managing Director from his appointment in 2005
- Setting key performance objectives to be delivered by the Group Managing Director for the second half of 2005.
- Approving the structure of a remuneration package for the new Group Finance Director
- Setting key performance objectives to be delivered by the Group Finance Director for the 2006.
- Approving salary increments for the Group Managing Director.

The Remuneration Report on pages [] to [] includes details of remuneration policy and practices and the remuneration of the Directors.

Nomination Committee

Within Scott Bader this Committee has wider terms of reference than those required under the Combined Code; therefore the Committee does not only seek to meet the Code's requirements. It facilitates new appointments to both the Group Board and senior Group management team. It is responsible for reviewing and recommending the Group Board's balance of abilities, in line with the Group's evolving business requirements and opportunities. To do so, it reviews Group Board composition and overall capabilities, particularly in relation to members' diversity of skills, experience, interests and terms of office. The Committee also reviews the performance of any Director retiring by rotation before making a recommendation to the Group Board on whether that person should put their name forward for re-election.

Working within the company's industrial democratic spirit and principles, the Committee monitors and recommends on reward structure and on appraisal, development and succession processes. On reward structure, the Committee recommends structure well suited to the Group's present and foreseen needs, but does consider individual reward levels. These are dealt with by the Remuneration Committee.

The Nomination Committee comprises three non-executive Directors; the chair Mr T Phillips is independent. The Managing Director is also a member of the Committee and the Head of Group HR attends by invitation. The Committee met nine times during the year and included consideration of the following matters:

- The appointment of a new Group Managing Director
- The appointment of a new Company Secretary
- The appointment of a new Group Finance Director
- Proposed changes to executive Directors
- Reviewing the tenure period for different Directors
- Reviewing the terms of employment for the executive Directors and senior management
- Gaining an understanding of current succession policy for senior management.
- Defining the principles which a succession planning policy should work to.

Any proposed external senior executive appointment commences with an evaluation by the Nomination Committee of the balance of skills, knowledge and experience on the Group Board and, in conjunction with experienced external search consultants, a description of the role and responsibilities for the proposed appointment is then prepared. The appointed external consultant will then prepare a shortlist of potential candidates in consultation with the Managing Director. Following meetings with candidates and the chairman and other Directors, the Nomination Committee would then formally meet in order to ensure that the views of all stakeholders are taken into account before finalising any recommendation regarding an appointment to the Group Board. Any appointees are required to confirm that they have sufficient time and independence to devote themselves effectively to the position.

Audit Committee

The Audit Committee assists the Group Board in the discharge of its responsibilities for corporate governance, financial reporting and corporate control and the Group Board has delegated these responsibilities to the Audit Committee. The Committee comprises four non-executive Directors, two of whom are independent. Mr Graeme Crombie is the chairman of the Committee and the Group Board is satisfied that he has recent and relevant financial experience. The Group Board considers that the Committee's members have broad commercial experience and extensive business leadership capability. The Group Managing Director and Group Finance Director regularly attend the Committee meetings by invitation. The work of the Audit Committee during 2005 included consideration of the following matters:

- For the 2004 year-end the Annual Report and Accounts
- The report from the external auditors for the 2004 year-end
- The recommendation to the Group Board of the re-appointment of Grant Thornton UK LLP as auditors
- Determined the auditors' fee on behalf of the Group Board
- Recommended charitable disbursements
- Approved the strategy memorandum for the 2005 year-end audit
- Formulating the Group's approach to risk management
- Reviewed the New Polymer Plant project
- Established a criteria for Post Investment Reviews
- Agreed a policy on auditor independence and provision of non-audit services by the auditor
- Developments in accounting standards
- Reviewed the terms of reference of the Committee.

The Committee is offered the opportunity to meet regularly with the auditor without management being present but has not needed to take up this option during the year. The Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Group and of the profit or loss for the period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The Group's accounts have been prepared on the basis that the Group is a going concern. In forming this view, the Directors have reviewed the Group's budgets for the current year including capital expenditure plans and cash flow forecasts.

AGM

The Group holds an Annual General Meeting but only has one corporate shareholder, the Scott Bader Commonwealth Limited. Employees who are members of the Commonwealth are eligible to attend the Company's and the Commonwealth's annual general meetings, which are always held consecutively. The Group Board makes constructive use of the joint AGM in explaining its work and aims. In addition to meeting its obligations to shareholders, the Group Board recognises that it has a responsibility to the Group's customers, staff and suppliers and the communities in which it operates and invests.

The annual report together with the Notice of the Group's AGM, are sent to shareholders and Commonwealth members in the most cost-effective fashion. We aim to give as much notice as possible and at least 21 clear days notice is given. It is part of our policy to involve Commonwealth members fully in the affairs of the Group and to give them the opportunity at the AGM to ask questions about the Group's activities and prospects. There is an opportunity to vote on every substantial issue with separate resolutions for each issue. As we have one shareholder we do not count proxy votes.

The Scott Bader Retirement and Pension Fund is not controlled by the Group Board but by separate trustees drawn from within the Group and from external nominees. The trustees look after the assets of the fund, which are held separately from those of the Group. The pension fund's assets can only be used in accordance with the respective rules and for no other purpose.

Scott Bader's reputation for ethical business and sustainable partnerships is one of its most highly treasured possessions, and is seen by the company as always central to its business success. A Code of Practice provides guidance and encouragement to staff on how to best use the Scott Bader spirit on a day to day basis.

Board of Directors

Bob Coxon

Chairman

Also Chairman of the Remuneration Committee.

Bob Coxon is an engineering graduate of Brunel University and holds an MBA from Cranfield University. He was previously a Senior Vice President of ICI and CEO of Syntex.

He has a number of international and national roles in both the private and public sectors. As well as being a Senior Adviser to The Carlyle Group, his current non-Executive Director appointments include AZ Electronic Materials, and The Whitehall & Industry Group.

He holds a number of Chairmanship roles including Chairman of the Centre for Process Innovation, Deputy Chairman of the NE Science & Industry Council, and Chairman of the NE Process Industry Cluster representing over 300 companies. He is also Deputy Chairman of Durham University, chairman of the finance committee and chairman of University College.

Aged 58

Philip Bruce

Group Managing Director

Philip Bruce graduated in Chemistry from Aberdeen University and worked for 23 years with ICI in polyester, olefins and polymers businesses. He held a variety of roles from operations, sales, marketing, purchasing and business general management when with ICI.

At Rugby Cement, Philip was the Chief Executive UK for 2 years before joining Accenture as an Associate Partner in the Supply Chain practice. When with Accenture, he was engaged in the European Chemical, Construction and Oil areas working for clients such as BP, Bayer, BASF, Tarmac, Castrol and others.

Aged 53

Mark Cooper

Non-Executive Director

Elected by the members of the Scott Bader Commonwealth.

In 1992 Mark Cooper graduated from Cambridge University in Chemistry and shortly after joined Scott Bader on a two-year graduate training programme. After the training programme, he worked for six years in various positions within the R&D and technical service functions of the Composites Business.

In 2001 he graduated with a MBA from the Open University and moved into the role of European Business Development Manager for the Composites Business. In October 2005, he was appointed to the role of Application Support & Development Manager in D&R

Aged 35

Graeme Crombie

Non-Executive Director

Chairman of the Audit Committee and identified by the Board as the Senior Independent Non-Executive Director.

A graduate of Oxford, Graeme Crombie worked for Shell for over 30 years, retiring as Managing Director of Shell UK in 1994. Since then he has been Chair of Caledonian MacBrayne the Scottish ferry operator and Non-Executive Director of both Meconic Plc and Clydeport Plc until sold. Currently he is a Non-Executive Director of Scottish Water, a public utility and Tullis Russell, an employee owned paper manufacturer.

Aged 66

Cari Dacombe

Non-Executive Director

Elected by the Community Council.

Cari has worked for Scott Bader for over five years in a number of financial positions and is currently a key manager in the implementation of a new European ERP system. She is an accountant 'qualified by experience' and prior to joining Scott Bader held a number of senior financial/administrative positions with Marren Microwave Ltd and Robert Horne Group Plc. She is also a Director and Treasurer of Wellingborough Citizens Advice Bureau.

Aged 39

Andrew Forrester
Group Finance Director

In 1985 Andy Forrester qualified as a Chartered Accountant with KPMG and worked for them in the UK and USA. He has extensive experience in distribution. From 1988 to 2003 he held various positions with WHSmith working as an IT Director, General Management as well as numerous finance roles. His most recent role prior to joining Scott Bader was as Chief Financial Officer for Hagemeyer UK from 2003 to 2005.

Aged 43

Graeme Manley
Non-Executive Director

Elected by the Community Council

Graeme Manley joined D.S.M. in 1985 on a four-year training course incorporating all aspects of the polyester business, production, D&R and technical service. After completing the course he then worked as an area sales manager for DSM and Scott Bader. In 2000 he moved into marketing and took on the role of Senior Product Manager for Gelcoats and Crestomers. In 2002 Graeme moved back into Sales as Area sales manager as part of the distribution division and is currently Direct Sales Manager for UK, Holland and Greece in 2004.

Graeme has an MBA through the Open University.

Aged 38

Joe McKeever
Non-Executive Director

Elected by the members of the Scott Bader Commonwealth.

Joe McKeever graduated in fine art at the National College of Art and Design in Dublin and subsequently joined BASF Nyloprint. He later switched to BASF's Polymers division and completed a Diploma course in Reinforced Plastics at the Bolton Street School of Technology in Dublin. He later held a number of sales & marketing roles based in Copenhagen, Dallas, and San Francisco.

Returning to Ireland in 1993 he joined Scott Bader to cover the Irish market for both Specialty Polymers and Composites and was seconded to SBME in Dubai in July 1996. Following the acquisition of the JV partner's interest in the Dubai plant, he became C.E.O of SBME at the end of 1998 and joined the Executive in that same year.

Joe is the longest serving overseas Commonwealth Member and was the first (and only) member of the Executive ever to be elected to the Group Board.

Aged 51

Timothy Phillips
Independent Non-Executive Director

Independent Non-Executive Director. Chairman of the Nomination Committee.

Timothy Phillips is an Applied Social Sciences graduate and holds an MSc from the School of Oriental & African Studies. He worked at BP for 26 years, followed by senior appointments with Rolls-Royce, Anglian Water, PricewaterhouseCoopers, the European Foundation for Management Development, plus ongoing self employment as an independent management consultant working internationally with private sector companies.

He has been a member and Chairman of a number of charity sector management committees and boards, including the Royal Institution Audit Committee and the Quakers UN Board in Geneva and is currently an active member of the Quakers & Business Group's Board.

Aged 61

Remuneration Report

The Company's remuneration policy for Executive Directors is determined by both the Remuneration Committee and the Nomination Committee. The Nomination Committee considers the overall structure of the package and has particular regard to existing terms and conditions throughout the Company. The Remuneration Committee determines what the appropriate remuneration should be in each case. The Company seeks to attract, retain, motivate and reward capable individuals whilst maintaining a clear focus on Scott Bader's principles. To achieve this remuneration packages for Executive Directors are based upon the principle that the total non-bonus package should be around the mid-market level for similar sized companies in our industry. Presently, there are no long-term policies in place which reward Executive Directors according to corporate performance. The remuneration of each Director is subject to the approval of the Community Council.

Base Salaries

Base salaries for Executive Directors are reviewed annually each year as part of the Company's annual review of pay and rewards. As two Executive Directors have been appointed in the last eighteen months it has not been judged necessary to review their base salaries against external benchmarking. Prior to appointment market pay data was supplied by independent external advisers. Two executive directors (who have since resigned as directors) received a performance based pay rise during the year.

During the year the newly appointed Group Managing Director was awarded a salary increment on satisfactory completion of performance objectives. The policy of salary increments after an initial year's performance will apply to all new externally appointed Executive Directors. After the initial year the Executive Director is able to benefit from a potential bonus payment or profit related pay which applies to all employees in Scott Bader. No such payment was made during 2005.

Incentives

There are no incentives which apply solely to the Executive Directors. The current Executive Directors are ineligible for progression pay awards.

Retirements and Other Benefits

The nature and scale of the Executive Director's benefits packages are positioned around the median of the market. The major element of the package is the retirement benefit and car allowance. All new Executive Directors will receive an equivalent cash allowance for the agreed employer pension contribution. The Company supports and encourages its Executive Directors to play an active role in planning for their retirement needs and they are responsible for their own personal pension plan. This means that the costs to Scott Bader are stable and predictable. We do not fund retirement benefit liabilities.

During the year two Executive Directors (who have since resigned as directors) were members of the Company's defined contribution pension scheme.

Directors' Emoluments

Note 18 of the Financial Statements contains details of the aggregate emoluments.

As the Group has no share schemes, no shares or payments were awarded to any Director. No sums are paid to third parties in respect of a director's services.

Retirement Benefits

The current executive directors are not members of the Scott Bader Retirement Benefits Scheme. Each director has his own personal pension and the amount of contribution to shown in the Directors' Emoluments table.

Directors' Interests in Shares

No director owns any shares in the Company. All Directors are required to be members of The Scott Bader Commonwealth Limited which owns the entire share capital of Scott Bader Company Limited.

Remuneration policy for Chairman and Non-Executive Directors (NEDs)

The remuneration policy for the Chairman and NEDs is determined by the Board as a whole excluding those individuals who are being considered. The remuneration of any Director is subject to the approval of the Community Council. Remuneration of the Chairman and external NEDs comprises an annual fee only.

The four staff elected NEDs do not receive any additional fee for carrying out the director role, however they receive up to an additional ten days annual leave per year plus meeting dates to carry out this role. As employees they are entitled to standard Scott Bader benefits and this included during 2005 a defined contribution pension scheme.

Remuneration Report (2)

Remuneration Committee

The Remuneration Committee determines on behalf of the Board the Company's policy and practice on the remuneration of the Executive Directors and most senior management of the Company. The Committee determines the total remuneration packages for these individuals. Any compensation on termination of office is set out in executive directors' service contracts. It is dealt with directly by the Remuneration Committee or delegated by them to the Group Managing Director.

The Committee consists exclusively of the Independent NEDs of the Company. Members of the Remuneration Committee during 2005 were:

Mr Robert Coxon (Chairman)
Mr Timothy Phillips
Mr Graeme Crombie

The Committee members have no personal financial interest other than as members of the holding company in the matters to be decided.

The terms of reference for the Committee are determined by the Board and available from the Company Secretary.

Advisers

To ensure that Scott Bader's remuneration practices are market competitive, the Remuneration Committee has access to detailed external research on market data. During the year the Committee received information from The Hay Group through the Head of Human Resources.

The Group Managing Director, Head of Human Resources and one employee elected Director are normally invited to attend the meetings. They are excluded from any matter concerning the detail of their own personal remuneration. The Company Secretary acts as Secretary to the Committee.

Directors' service agreements and letters of engagement.

It is the Remuneration Committee's policy that all new externally appointed Executive Directors and senior executive managers are employed on service contracts subject to no more than one year's notice, in accordance with current corporate best practice. The Remuneration Committee strongly endorses the principle of mitigation of damages on early termination of a service contract.

The dates of current Executive Directors' service contracts, the dates on which their appointments took effect and the current expiry dates of their agreements are as follows:

<u>Executive Directors</u>	<u>Date of Agreement</u>	<u>Effective Date</u>	<u>Expiry Date</u>
Mr P Bruce	05.02.05	01.03.05	Terminable on one year's notice
Mr A Forrester	01.12.05	01.12.05	Terminable on one year's notice

There are no express provisions for compensation payable upon early termination of an Executive Director's contract other than detailed above. The cost of termination is applicable to the whole of the executive director package. It is a requirement that any post-termination earnings in the notice period are offset against the termination sum.

External Directorships

It is the Company's policy that no Executive Director should hold the directorship of any other Company without the agreement of the Group Board. No Executive Director received any fees through external directorships during 2005.

Remuneration Report (3)

Chairman and Non-Executive Directors

The Chairman has contract for services. The independent NEDs have a letter of engagement. The employee elected non-executive directors have standard employment contracts with Scott Bader.

<u>NED Directors</u>	<u>Date of Agreement/Letter</u>	<u>Effective Date</u>	<u>Expiry Date</u>
Mr R Coxon	00.03.04	01.04.04	31.03.07
Mr G Crombie	23.05.03	01.06.04	31.05.06
Mr T Phillips	23.11.04	01.01.05	31.12.08

Subject to satisfactory performance the Chairman and the independent NEDs are normally expected to serve two three-year terms. The letters of appointment do not state if there is any entitlement to compensation in the event of early termination for the independent non-executive directors. However, should the appointment of the Chairman terminate before the initial term, compensation to the level of equivalent fees is due.