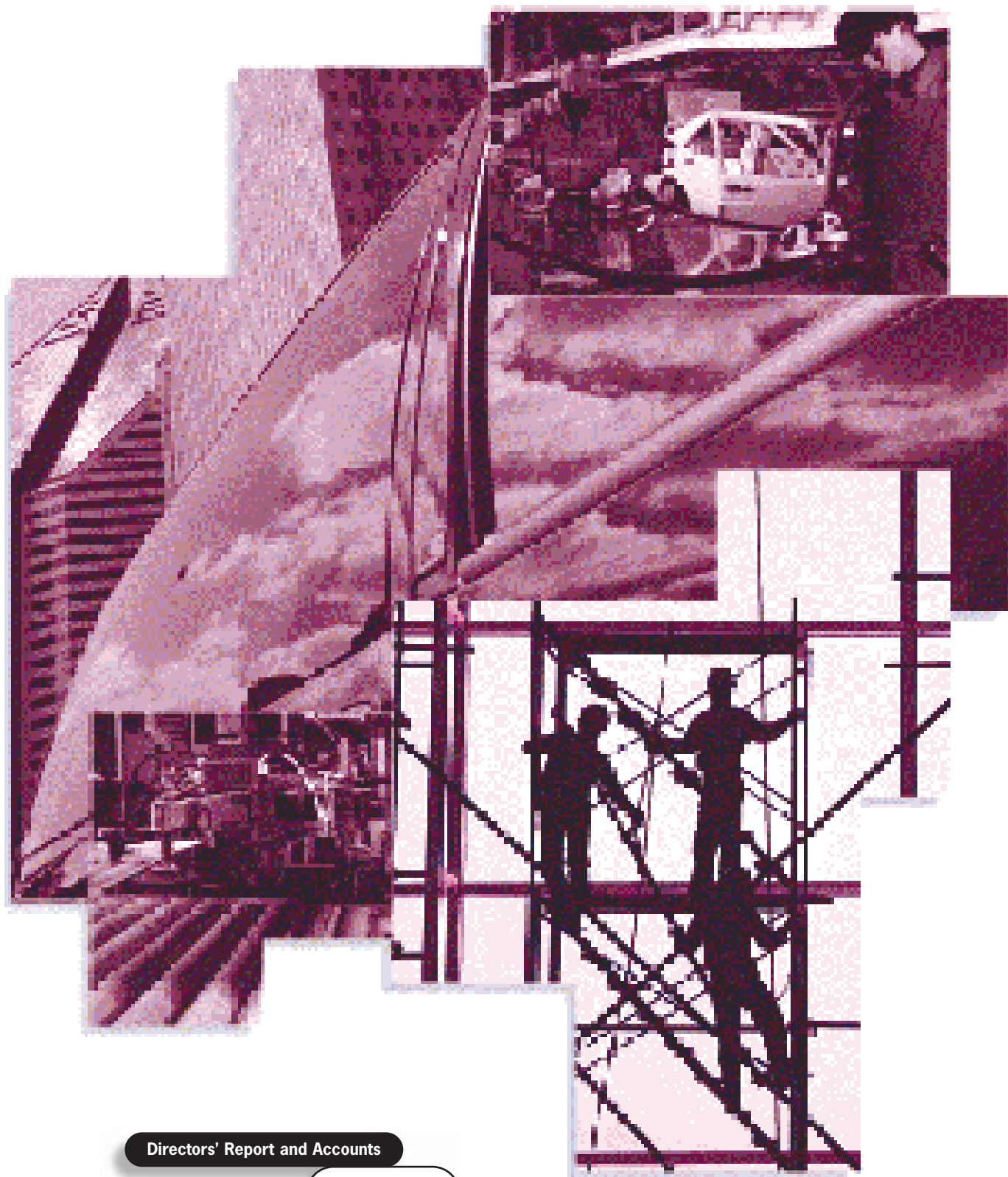




PILKINGTON



Directors' Report and Accounts

1997

Financial statements

For the year ended 31st March 1997

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Directors' report

The directors of Pilkington plc present their annual report and the audited financial statements for the year ended 31st March 1997.

The Group profit and loss account for the year is set out on page 14 and in the accompanying notes.

Principal activities

The principal activities and operations of the Group are described on pages 4 to 22 of the Annual Review and Summary Financial Statement. The principal subsidiary and associated undertakings are listed on pages 41 and 42. Further information, including details of important events affecting the business of the company or its subsidiaries is given in the Chairman's Statement and the Financial Review.

Results and dividends

Profit on ordinary activities before taxation and all exceptional items was £132 million (1996 £212 million). The profit on ordinary activities before taxation but after exceptional items was £77 million (1996 £55 million). The profit attributable to shareholders of Pilkington plc was £2 million (1996 loss £25 million).

The directors recommend the payment of a final dividend of 3.25p per ordinary share which, taken with the interim dividend of 1.75p per ordinary share paid on 14th February 1997, makes a total dividend for the year of 5.0p per ordinary share (1996 – 5.0p). Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 15th August 1997 to shareholders registered on 20th June 1997.

Significant acquisitions and disposals

On 3rd October 1996, the company completed the sale of its remaining Pilkington Barnes Hind contact lens business to Wesley Jessen Corporation for \$79 million.

On 1st November 1996, Pilkington United Kingdom Limited purchased the business of Plyglass, a glass processing and distribution company.

Share capital

At 31st March 1997 there were 1,036 million ordinary shares of 50p each in issue (1996 – 1,004 million shares).

Options were granted in the year to employees and directors under the company's share option schemes in respect of 8.3 million shares (1996 – 2 million shares).

Further details of changes in the share capital are shown in note 31 to the accounts.

Scrip dividend

The company operates a scrip dividend scheme enabling eligible shareholders to receive dividends in the form of shares instead of cash. Shareholders with an existing scrip dividend mandate will automatically receive new shares in lieu of a cash dividend. The scrip dividend share value will be calculated on the basis of the average of the middle market quotations of Pilkington ordinary shares on the London Stock Exchange for the five dealing days commencing on 16th June 1997.

Substantial shareholdings

At 2nd June 1997, the following substantial interests (3% or more) in the company's ordinary share capital had been notified to the company:

	Number of shares (millions)	% of issued share capital
Mercury Asset Management plc	199.1	19.2
Schroder Investment Management Limited	108.7	10.5

Research and development

Research and development expenditure for the Pilkington Group amounted to £51 million for the year to 31st March 1997, of which £2 million was directly funded by customers (1996 £52 million and £1 million respectively). About a quarter of this expenditure is at the Pilkington Technology Centre at Lathom, Lancashire and the remainder is at the Group's R&D facilities at sites in the USA and Europe.

Group Research continues to develop the key areas of technology required to support the current and future business operations of the Pilkington Group. Further details of the Group's research and development activities are given on pages 21 and 22 of the Annual Review and Summary Financial Statement.

Employment policy and practice

At 31st March 1997, there were 38,200 people working for the Group worldwide. Of these, 20% were employed in the United Kingdom, 42% in the rest of Europe, 22% in North America and 16% in the rest of the world.

Pilkington's human resources policy and practice is designed to secure the goodwill, motivation, commitment and contribution of all employees to the aims and success of the business. The Group's policy statement has been distributed to all Group companies.

The Group has a long established and well recognised policy of encouraging employee involvement through communication and consultation on a wide range of issues. Wherever possible, employees are invited to participate in multi-disciplinary quality and process improvement activities.

The Group publishes an international magazine, *Pilkington World*, which communicates the Group's interim and final results and exchanges news on Group businesses. Group companies are encouraged to supplement this information with their own employee communications.

A European Forum has been established, at which senior management and employee representatives from the Group's European flat and safety glass operations meet annually to exchange information and views on the business.

Equal opportunities

Pilkington is committed to a policy of equal opportunities in all of its companies. The Group continues to meet its obligations to offer employment opportunities to disabled people and people becoming disabled during their employment. A policy statement has been distributed to all Group companies.

Training

The Group has a policy on people development which embraces its commitment to the training and re-training of employees at all levels in order to develop their full potential. A policy statement has been updated and communicated to all Group companies. The Group has its own training activity in the UK which services core management development programmes. Group companies also have their own training programmes for their employees. Several businesses and operations within the UK (including the Group headquarters) have achieved the Investors in People award and many others are committed to achieving this standard.

Health and safety

The Group's health and safety policy includes a requirement for full health and safety audits of all facilities. These cover management responsibilities, standards and monitoring mechanisms. A copy of the policy may be obtained from the company secretary.

The Pilkington board is committed to achieving best international standards of health and safety throughout the Group.

Environment

Pilkington strives for the highest standards in all the countries in which it operates. A copy of the Group's environmental policy may be obtained from the company secretary. An environmental review is also available from the company secretary.

More information on environmental issues may be found in the Annual Review.

Pilkington and the community

During the year Pilkington made donations to charitable organisations in the UK amounting to £223,000 (1996 £204,000). Donations to charitable organisations overseas amounted to £450,000 (1996 £533,000). No political contributions were made.

The board believes that all Group companies and their employees benefit from making an appropriate contribution to the communities in which they operate and it will continue to encourage this.

Close company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to Pilkington plc.

Payments policy

The company's policy in relation to the payment of its suppliers is to settle its terms of payment with each supplier when agreeing the terms of each business transaction. The supplier is made aware of the terms which are detailed on the company's purchase orders. It is company practice to abide by the agreed terms of payment. Trade creditors amounting to £3 million reported in note 24 to the financial statements, represent 31 days of average daily purchases.

Directors' report

Directors

The directors of the company are shown on pages 26 and 27 of the Annual Review and Summary Financial Statement.

Sir Robin Nicholson retired as a director on 31st July 1996. Peter Grunwell retired as a director on 31st March 1997 after 36 years service with the Group.

Roger Leverton resigned as group chief executive and as a director on 20th May 1997.

Paolo Scaroni was appointed as an executive director on 1st April 1997 and as group chief executive on 20th May 1997. In accordance with the company's Articles of Association he will offer himself for election as a director at the Annual General Meeting.

In accordance with the company's Articles of Association, George Simpson and John Macomber will retire by rotation at the Annual General Meeting and, being eligible, they will offer themselves for re-election.

Apart from service contracts and share options no director of the company has had any significant interest in any contract with the company or its subsidiaries.

Directors' interests

The interests of the directors and their immediate families in the share capital of the company and the number of options held by them in respect of the company's shares are set out in full in note 39 of the financial statements.

CREST

On 5th June 1996, the company's board of directors passed a resolution, in accordance with the Uncertificated Securities Regulations 1995, permitting the company's ordinary shares to be entered into the CREST electronic share transfer and settlement system. The company's ordinary shares were admitted to CREST in October 1996.

Annual General Meeting

The notice convening the Annual General Meeting to be held at the Pilkington Technology Centre, Hall Lane, Lathom, Nr Ormskirk, Lancashire L40 5UF on Thursday 24th July 1997 at 11.30 am, is sent to shareholders separately with this report, together with an explanation of the items of special business.

Auditors

The auditors, Coopers & Lybrand, have expressed their willingness to continue to act and a resolution proposing their re-appointment as auditors to the company will be submitted to the Annual General Meeting.

By order of the Board,

David Bricknell
Secretary

5th June 1997

Report of the Remuneration Committee

The responsibilities of the Remuneration Committee, which consists of all the non-executive directors under the chairmanship of George Simpson, are summarised on pages 28 and 29 of the Annual Review. The committee's principal role is to determine the terms and conditions of employment of the executive directors and to approve suitable performance related pay formulae and the issue of options under the Group's senior executive share option and bonus schemes.

The committee confirms that the company complies with the best practice provisions set out in Section A of the annexe to the Listing Rules of the London Stock Exchange.

The committee is advised by the group director of human resources and by external professional advisers.

Policy objectives

Key objectives of the remuneration policy are to ensure that salaries and incentives are aligned with the performance of the Group and the interests of shareholders and to enable the Group to attract, retain and motivate the highest calibre of executive.

In framing its remuneration policy the committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

The Group operates throughout the world and executives are appointed to their positions from different countries. Remuneration arrangements are, therefore, tailored to the competitive requirements of the home country.

All elements of the terms and conditions of employment are reviewed against external market data drawn from the countries, in which the Group operates, with the help of independent advisers. In the UK the committee considers data, supplied by external advisers, which is drawn from a sample of comparator companies chosen on the basis of industry sector, size, complexity and international dimension.

Remuneration components

Remuneration of directors and senior executives consists of basic salary, benefits including company car, medical insurance and pension entitlement, performance related bonuses and longer term incentive programmes.

A United States supplement was paid to Peter

Grunwell, who was resident in the USA.

Executive directors' remuneration is normally reviewed annually in April and any increase granted takes account of market conditions and past performance for the previous year.

Bonuses and longer term incentive programmes

In addition to basic salary, all senior executives are eligible for an annual performance related bonus which is not pensionable. This bonus is designed to reflect both the Group's performance and the executive's contribution to it and is payable only if specific profit and cash flow performance targets are met. These targets are set each year by the Remuneration Committee and payments are capped at a maximum of 30% of basic salary (and US supplement where applicable). No bonus was paid to directors for 1997.

The top cadre of senior executives around the world, including the executive directors, also participated in a special bonus plan for 1996/97, which required the achievement of specific cash flow targets for the year. No bonuses were paid under this plan.

Share options and deferred bonus plan

The Group strongly believes in the value of employee participation in share option and share purchase schemes in order to align their interests with those of shareholders. As a result of such schemes, many of the Group's employees in the UK and overseas have interests in Pilkington shares.

The Group operates three types of share option scheme, a worldwide scheme for all employees where legislation permits, a savings-related scheme for all UK employees and an executive scheme in the UK and overseas.

The Remuneration Committee, which administers the executive schemes, has resolved that options granted in or after December 1994 will only be exercisable if certain performance targets are met.

The committee has initially set two targets, the achievement of either of which, will in normal circumstances, be a condition precedent to the exercise of the option. The first target will require the growth in the company's earnings per share, before exceptional items, over a period of three consecutive financial years to exceed the rate of price inflation over that period by at

Report of the remuneration committee

least 6%. The second target requires the total shareholder return on a Pilkington share over a rolling period of three years to exceed the total shareholder return of the FT-SE Actuaries All Share Index over the same period.

The deferred bonus plan is linked to the annual performance bonus referred to above. Under the deferred bonus plan the company's most senior executives worldwide are encouraged to invest half or all of any annual cash bonus, after tax, in the company's shares which, if left in the plan for three years, will be matched by the company on a one for one basis.

Details of directors' options and deferred bonus plan entitlements are given in note 39 to the financial statements.

Directors' contracts

Each of the executive directors has a contract of service which is terminable by the company on giving not less than two year's notice. The committee considers the notice period of two years to be reasonable and appropriate in the context of an international group.

External directorships

The committee believes that the company can benefit from its executive directors holding non-executive appointments and also believes that this represents a valuable opportunity in terms of personal and professional development. Such appointments are subject to the approval of the board and it is the company's practice that fees derived from one such appointment may be retained by the executive director concerned.

Pension arrangements

Only the basic salary of executive directors is pensionable.

In 1996/97, apart from Roger Leverton and Andrew Robb, executive directors were members of the Pilkington executive pension scheme which entitles them to a pension on retirement of two thirds of pensionable salary. The company paid an annual contribution to the pension scheme of 30% of salary.

The pension arrangements of Roger Leverton and Andrew Robb are affected by the Inland Revenue earnings cap on approved pension benefits. Their pension arrangements entitle them to similar retirement pensions to the other executive directors. They are

partly funded through personal pension plans and the balance is unfunded but fully provided in the financial statements.

Non-executive directors

The fees of the non-executive directors are determined by the executive directors in consultation with the chairman and on the basis of external advice. They are not part of the Remuneration Committee's remit. The non-executive directors receive a basic fee of £22,000 per annum plus an additional sum of £3,000 per annum in respect of committee chairmanship. They do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes.

Financial review

Accounting policies

Two new United Kingdom accounting standards came into effect during the year – FRS 1 on Cash Flow, which has been revised with presentational changes to the format, and FRS 8 on Related Party Transactions. The financial statements comply with these standards and more detail is given in the cash flow statement and in note 41 to the financial statements.

The company's policy on the revaluation of subsidiary undertakings to reflect the underlying net asset value of the subsidiaries concerned has been changed such that the investments are now carried at their original historical cost to the company less any permanent diminution in value. Details of the change and the significance of the restatement to the parent company are detailed in note 6 to the financial statements.

Group profit and loss account

Turnover from continuing operations of £2,878 million was 3% higher than 1996. Building products accounted for 54% of turnover and automotive products represented 46%. Underlying sales volumes increased 3%. Recently acquired businesses added 8% to turnover, while price reductions and the strong pound were responsible for a corresponding reduction.

Operating profits from continuing operations of £152 million before exceptional items were 29% lower than 1996. Flat and safety glass profits in Europe of £61 million were down to nearly half the previous year, due to severe price pressure in building products. North American profits of £65 million were again a record, rising 12% above 1996. Profits of £45 million in the Rest of the World were 13% down; Argentina and Chile held up well following the start up of Chile's first float glass plant in the summer of 1996. Brazil was affected by price reductions, particularly in automotive products, and increased imports affected the result in Australia.

Exceptional items

An exceptional charge of £40 million was included in operating profit, primarily to cover the cost of the next stage in the restructuring of the European glass businesses. This involves plant closures, the write down of redundant assets and redundancy costs.

Other exceptional items cover the loss on the divestment of the Pilkington Barnes Hind contact lens business and losses on divestment of property assets in Germany.

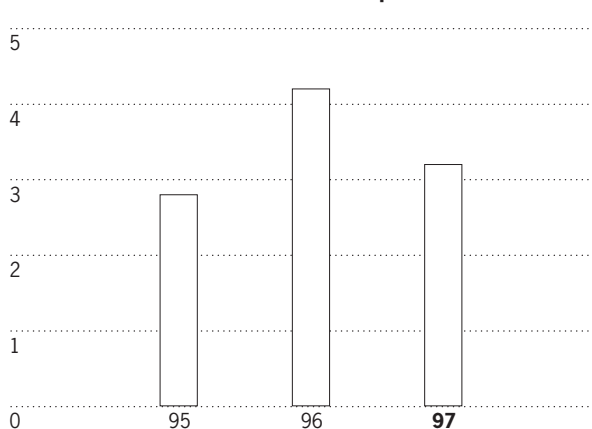
Associates, investments and interest

Pilkington's share of associates' profits was £23 million, £20 million less than in 1996, principally because of SIV, which was an associate for half of the previous financial year and was a full subsidiary for the whole of 1996/97.

Investment income of £21 million, mainly the dividend from Vitro Plan SA de CV in Mexico, was at a similar level to 1996.

Net interest of £60 million was £7 million lower than in 1996, due to a combination of lower interest rates, a reduction in net debt outstanding and the strong pound. Net interest costs were covered 3.2 times by profit before interest and exceptional items.

Times **Interest cover before exceptional items**



Profit before tax

Profit before tax and all exceptional items of £132 million represented a 38% reduction on 1996. Profit before taxation of £77 million compared with £55 million in the previous year. The tax charge for 1997 on profits before exceptional items was £47 million (1996 £63 million), representing an effective tax rate of 36%.

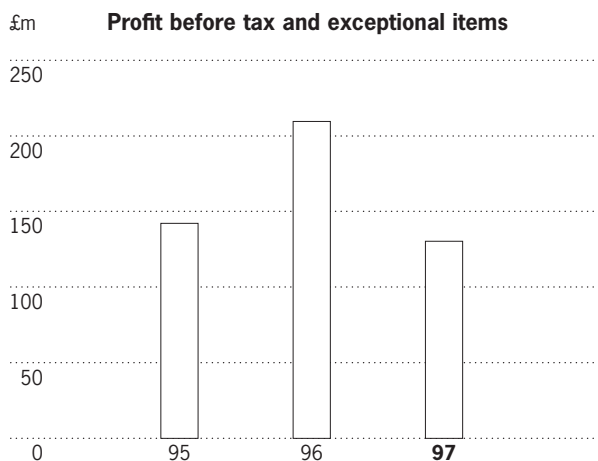
Earnings and dividends

Profit attributable to minorities rose to £26 million from £17 million in 1996 (which included £12 million of restructuring charges).

Financial review

Earnings attributable to shareholders before exceptional items fell from 14.0p in 1996 to 5.8p, based on the average number of shares in issue of 1,031 million. Earnings per share of 0.2p after exceptional items, compares with a loss of 2.9p in 1996.

The directors have proposed a final dividend of 3.25p per share, making 5.0p for the year, unchanged from last year. Dividends are covered 1.2 times by earnings before exceptional items.

**Cash flow and investments**

£297 million was generated from operating profit and depreciation, £73 million less than in 1996. Continued emphasis on reducing the investment in working capital produced a cash inflow of £34 million (1996 £86 million outflow). £22 million was spent on exceptional restructuring costs (1996 £22 million).

Cash flow from operations totalled £288 million, an increase of £71 million over 1996. Details are shown in note 34 to the financial statements.

Returns on investments and servicing of finance cost £25 million, down from £59 million in 1996, due to a reduction in interest paid and dividends to minorities. Taxation paid of £44 million was reduced from £67 million in the previous year.

Purchases of tangible fixed assets totalled £170 million (1996 £215 million). After taking account of assets acquired under finance leases, capital expenditure totalled £186 million (1996 £232 million). This includes £20 million for construction of new facilities in Chile, Argentina and China. Excluding this

strategic expansion, ongoing capital expenditure was 1.1 times depreciation, close to the Group's target level of 1 times depreciation.

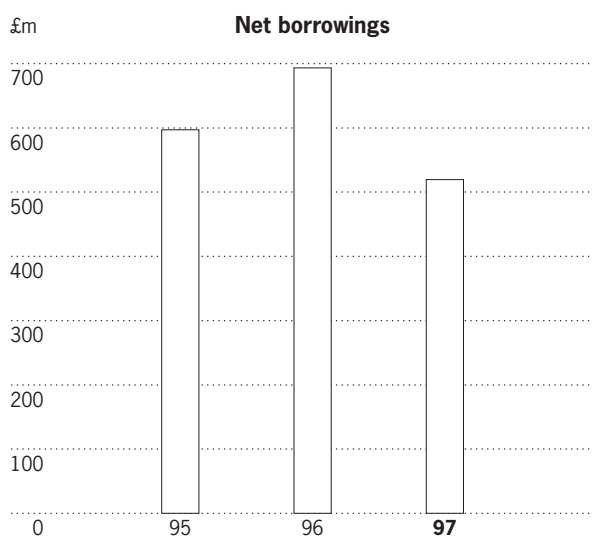
£10 million was spent on acquisitions, compared to £225 million in 1996, when SIV and Interpane were acquired. Proceeds from divestments totalled £101 million (1996 £97 million), which included £50 million from the sale of the Pilkington Barnes Hind contact lens business, and £26 million from property disposals in Germany.

Net cash inflow before financing and dividends was £140 million, which compares with an outflow of £252 million in 1996.

Borrowings and shareholders' funds

Borrowings, net of cash and marketable investments, were £524 million at 31st March 1997, a reduction of £175 million. The net debt/total equity ratio was 47%, down from 55% at the end of last year.

Shareholders' funds at 31st March 1997, including minority interests, were £1,123 million. The reconciliation of the movement in shareholders' funds set out on page 15 to the financial statements shows a net reduction of £134 million, principally arising from exchange movements.



Treasury policy

The operation of the Group's businesses around the world gives rise to extensive foreign currency and interest rate risks, which the Group manages actively.

The Group is exposed to two types of foreign exchange risk, balance sheet (translation) and transaction (receipts and payments). In relation to the former, the proportion of assets located in each major currency block is matched with an appropriate level of borrowings in the same group of currencies. Currency borrowings may take place in the local market, or in the UK or may be created synthetically through currency swaps. Details are provided in note 26 to the financial statements. Transaction exposures are hedged when known, mainly using the forward hedge market.

The Group maintains a balance of fixed and floating rate debt to hedge its interest rate risk. The balance of fixed and floating rate debt is adjusted from time to time through the use of interest rate swaps. At 31st March 1997, 54% of gross borrowings were at fixed rates (1996 – 48%).

The Group has established clear policies and procedures covering the use, authorisation, mark to market valuation and reporting of derivative instruments including currency and interest rate swaps. Compliance with these policies and procedures is checked regularly by internal and external auditors. Speculation is strictly forbidden.

Capital commitments

At 31st March 1997 the Group had placed contracts, not provided for in the financial statements, for plant and equipment totalling £37 million, compared with £39 million at 31st March 1996.

Financial resources

At 31st March 1997, the Group had available but undrawn committed borrowing facilities totalling approximately £340 million with maturity in excess of one year.

After making enquiries, the directors have a reasonable expectation that the Group and the parent company have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements. The auditors, Coopers

& Lybrand, have reported on page 29 of the Annual Review and Summary Financial Statement the extent of compliance with the Code of Best Practice as it relates to going concern.

Directors' responsibility in respect of the preparation of financial statements

The directors are required to present for each accounting period financial statements which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of affairs of the Group and the company as at the end of the accounting period and of the profit or loss of the Group for that period. In preparing the financial statements, suitable accounting policies, framed by reference to reasonable and prudent judgements and estimates, are used and applied consistently. Applicable accounting standards are followed subject to any material departures being disclosed and explained in the notes to the financial statements. The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors are also responsible for maintaining proper accounting records, safeguarding the assets of the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditors to the members of Pilkington plc

We have audited the financial statements on pages 11 to 42.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31st March 1997 and of the profit, total recognised losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
5th June 1997

Accounting policies

The Group's financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain assets. The financial statements are also prepared in accordance with Accounting Standards applicable in the United Kingdom.

The policy on the revaluation of subsidiary undertakings to reflect the underlying net asset value of the subsidiaries concerned has been changed such that the investments are now carried at their original historical cost to the company. Details of the change and the significance of the restatement to the parent company are detailed in note 6.

A summary of the major Group accounting policies, which have been consistently applied apart from the change referred to above, is set out below.

1 Group consolidation

The Group's financial statements consolidate the financial statements of Pilkington plc and all its subsidiary undertakings. Where appropriate, the financial statements of overseas subsidiary undertakings are adjusted to conform with the Group's accounting policies. Unrealised profits on intra-group transactions are eliminated on consolidation.

The results of subsidiary undertakings acquired during the year are included from the date control of that undertaking passes to the Group.

Any difference between the cost of acquisition of a subsidiary undertaking and the fair value of its net assets at acquisition is taken to goodwill reserve in the year of the acquisition.

The results of subsidiary undertakings are included up to the date that the undertaking ceases to be a subsidiary either through disposal or through a loss of control exercised over that company. The profit or loss on disposal is calculated by reference to the net asset value at the date of disposal adjusted for any purchased goodwill on acquisition in so far as this has not previously been charged through the profit and loss account and can also subsequently be identified.

2 Foreign currencies

Assets and liabilities denominated in foreign currencies, including those of subsidiary and associated undertakings, are translated into sterling at year end

exchange rates. The results and cash flows of overseas subsidiary and associated undertakings are translated into sterling at the average exchange rates ruling during the financial year.

The principal exchange rates used for translation of foreign currencies were as follows:

	1997		1996	
	Average	Year end	Average	Year end
German DM	2.46	2.73	2.23	2.25
US \$	1.59	1.63	1.56	1.53
Australian \$	2.01	2.08	2.10	1.95

Exchange differences arising on the translation of the net assets of overseas subsidiary undertakings, and on the translation of foreign currency borrowings used to finance overseas subsidiaries, are taken to reserves. Other exchange differences are taken to the profit and loss account.

Currency swap agreements and forward exchange contracts are used as part of the process of managing the effect of changes in currency rates on the Group's assets and long term borrowings denominated in foreign currencies. The resulting unrealised gains or losses on swap agreements used to hedge foreign equity investments are accounted for through revaluation reserve, with adjustment also being made to the related borrowings.

The results of subsidiaries and associated undertakings in South America have been translated on an inflation-adjusted basis in accordance with UITF Abstract 9.

3 Turnover

Group turnover is based on the invoiced value of sales, excluding VAT and other sales based taxes, and includes the proportion of the sales value of long term contracts relevant to their state of completion. Turnover includes sales by the Group to associated undertakings, but excludes sales by associated undertakings.

4 Licensing income

Licensing income and technical fees are credited directly to the profit and loss account as they accrue. The income includes receipts from overseas subsidiary undertakings

Accounting policies

(the cost of which is charged against their operating profit) and associated undertakings.

5 Deferred income

Regional development grants and other investment grants are taken to deferred income and are released to the profit and loss account in appropriate instalments relating to the type and nature of expenditure they are intended to fund.

6 Research and development

Revenue expenditure on research and development is charged against the profits of the year in which it is incurred.

Capital expenditure on research laboratories, equipment and plant is written off over its expected working life.

7 Retirement benefits

The pension cost relating to defined contribution schemes operating in the United Kingdom is the amount of the contribution payable in the respective financial year.

The pension cost relating to defined benefit schemes operating in the United Kingdom is assessed in accordance with the advice of independent qualified actuaries. The amounts so determined include the regular cost of providing the benefits under the plans, which it is intended should remain at a level percentage of current and expected future earnings of the employees covered under the plans. Variations from the regular pension costs are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans.

Retirement plans of overseas subsidiaries are accounted for in accordance with local conditions and practice. With minor exceptions, these subsidiaries recognise the expected cost of providing pensions on a systematic basis over the average remaining service lives of employees in accordance with the advice of qualified actuaries.

The policy in respect of the cost of providing healthcare benefits to retired employees, principally in the USA, accords with UITF Abstract 6, and is similar to that used to account for pension obligations. The annual charge to the profit and loss account is determined on a

systematic basis over the service lives of employees in accordance with the advice of qualified actuaries.

8 Glass tank repairs

A charge is made annually against profits to provide for the accrued proportion of the estimated revenue cost of major glass tank repairs which are carried out periodically.

The actual revenue cost of such repairs, when incurred, is charged against the provision.

9 Tangible assets

Tangible assets are stated at historical cost or in certain cases at valuation. Assets held at valuation principally relate to tangible assets located in countries subject to hyperinflation.

Certain other tangible assets, principally properties, are revalued annually on an open market existing use basis by employees of the Group who are also qualified valuers.

In the case of businesses acquired by the Group as going concerns, the fair value attributed to the tangible assets at the date of acquisition is treated as their cost to the Group.

Interest costs relating to major tangible assets under construction are included in the cost of such assets and are depreciated as part of the total cost.

10 Depreciation

Freehold land is not depreciated.

Depreciation is charged on all other categories of tangible fixed assets so as to write off the cost, or where applicable the valuation, by equal annual instalments over the expected lives of the assets, such depreciation commencing at the start of the half year after the asset is commissioned. The average asset lives used under this policy approximate to 40 years for freehold and long leasehold buildings and 15 years for plant and machinery. Short leasehold buildings are depreciated over the life of the lease.

11 Leases

Assets held under finance leases are included in tangible assets at cost and are depreciated over the shorter of the lease term or their useful life. Obligations relating to finance leases, net of finance charges in respect of future

periods, are included as appropriate under creditors due within or after one year. Finance charges are allocated to accounting periods over the lease term to reflect a constant rate of interest on the remaining balance of the obligation.

Rentals under operating leases are charged to the profit and loss account as incurred.

12 Subsidiary undertakings

The parent company carries its investments in subsidiary undertakings at their original historical cost less any permanent diminution in value.

13 Associated undertakings

The Group treats as associated undertakings those companies which are not subsidiary undertakings, where the Group's interest in the equity capital is long term and where the Group is able to exercise significant influence, the latter normally being accompanied by board representation.

The Group's share of the profits or losses of associated undertakings is included in the Group profit and loss account.

The Group revalues its interests in associated undertakings each year at the underlying net asset value as shown in the latest financial statements of the companies concerned. These valuations are incorporated in the financial statements of the Group and differences in the valuations are taken to reserves.

14 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes all direct expenditure and works overhead expenditure incurred in bringing goods to their current state under normal operating conditions.

The value of work on long term contracts is stated at cost including an appropriate proportion of overhead expenditure. Deductions are made for any foreseeable losses and progress payments received or receivable.

15 Deferred taxation

Deferred taxation is provided on the liability method at current or expected future rates of tax in respect of:

- i) timing differences between profits as computed for tax purposes and profits as stated in the financial statements;
- ii) other timing differences; and
- iii) advance corporation tax which it is expected will be set off against United Kingdom corporation tax liabilities of future years

except to the extent that, in the opinion of the directors, the potential tax liability or asset will not become payable or recovery made in the foreseeable future.

Group profit and loss account

For the year ended 31st March 1997

	Note	Before exceptional items		Total including exceptional items	
		1997 £m	1996 £m	1997 £m	1996 £m
Turnover					
Continuing operations		2,865		2,865	
Acquisitions	3	13		13	
Total continuing operations	1	2,878	2,790	2,878	2,790
Discontinued operations	2	41	109	41	109
		2,919	2,899	2,919	2,899
Operating profit					
Continuing operations		152		112	
Acquisitions	3	-		-	
Total continuing operations	1	152	214	112	59
Discontinued operations	2	(4)	-	(4)	-
		148	214	108	59
Loss on disposal of fixed assets of continuing operations	7	-	-	(7)	(2)
Loss on disposal of discontinued operations	7	-	-	(15)	-
Loss on disposal		-	-	(2)	-
Provision created in the year		-	-	9	-
Previous provision utilised		-	-		-
		148	214	93	57
Income from interest in associated undertakings	9	23	43	23	43
Investment income	10	21	22	21	22
Interest payable less receivable	11	(60)	(67)	(60)	(67)
		132	212	77	55
Taxation	12	(47)	(63)	(49)	(63)
		85	149	28	(8)
Minority interests (including non equity shares)	13	(25)	(28)	(26)	(17)
		60	121	2	(25)
Dividends	14			(52)	(48)
				(50)	(73)
Retained loss of the Group including associated undertakings	32				
Earnings/(loss) per share	15	5.8p	14.0p	0.2p	(2.9p)

The major exceptional items charged against operating profit in 1997 and 1996 were restructuring charges of £40 million and £155 million respectively, more fully described in note 7.

Statement of total recognised gains and losses

For the year ended 31st March 1997

	1997 £m	1996 £m
Profit/(loss) attributable to shareholders of Pilkington plc	2	(25)
Other recognised (losses)/gains		
Unrealised exchange rate movements on foreign currency net investments	(111)	32
Unrealised deficit on revaluations	(3)	–
Total other recognised (losses)/gains	(114)	32
Total recognised (losses)/gains relating to the year	(112)	7
Total (losses)/gains recognised since last annual report	(112)	7

Note of historical cost profits and losses

For the year ended 31st March 1997

There were no material differences between the reported profit on ordinary activities before taxation and the historical cost profit on ordinary activities before taxation for the year. Similarly, there were no such differences in respect of 1996.

Reconciliation of movement in shareholders' funds

For the year ended 31st March 1997

	1997 £m	1996 £m
Profit/(loss) attributable to shareholders of Pilkington plc	2	(25)
Dividends	(52)	(48)
Other recognised (losses)/gains	(114)	32
Acquisition goodwill written off	(7)	(110)
Capitalisation of pre-acquisition profits of SIV	–	(14)
Shares issued	16	102
Premium on shares issued	21	216
Costs associated with rights issue	–	(8)
Net (decrease)/increase in shareholders' funds for the year	(134)	145
Shareholders' funds at beginning of year	971	826
Shareholders' funds at end of year	837	971

Balance sheets

As at 31st March 1997

	Note	1997		1996	
		Group	Company Restated	Group	Company Restated
		£m	£m	£m	£m
ASSETS EMPLOYED					
Fixed assets					
Tangible assets	16	1,596	7	1,845	8
Investments – subsidiary undertakings	17	–	1,093	–	1,157
Investments – associated undertakings	18	109	–	113	–
Investments – trade investments	19	72	–	87	–
Total fixed assets		1,777	1,100	2,045	1,165
Current assets					
Stocks	20	398	–	480	–
Debtors – amounts falling due within one year	21	486	12	595	23
– trade debtors subject to financing arrangements	21	25	–	–	–
– less non-returnable amounts received	21	(22)	–	–	–
– total debtors falling due within one year	21	489	12	595	23
Debtors – amounts falling due after more than one year	22	97	8	92	7
Investments – marketable	23	39	–	42	–
Cash at bank and in hand		115	2	174	1
		1,138	22	1,383	31
Creditors – amounts falling due within one year	24	693	59	766	59
Net current assets/(liabilities)		445	(37)	617	(28)
Total assets less current liabilities		2,222	1,063	2,662	1,137
FINANCED BY					
Creditors – amounts falling due after more than one year	25	573	72	789	174
Provisions for liabilities and charges	27	512	13	578	13
		1,085	85	1,367	187
Deferred income	29	14	18	21	22
Capital and reserves					
Called up share capital	31	518	518	502	502
Share premium account	32	296	296	274	274
Revaluation reserve	32	176	–	360	30
Other reserves	32	213	45	236	16
Goodwill reserve	32	(377)	(5)	(406)	(6)
Profit and loss account	32	11	106	5	112
Total equity shareholders' funds		837	960	971	928
Minority interests – equity	33	122	–	113	–
– non equity	33	164	–	190	–
		286	–	303	–
		2,222	1,063	2,662	1,137

The financial statements on pages 11 to 42 were approved by the directors on 5th June 1997.

Directors: Sir Nigel Rudd, A. M. Robb.

Group cash flow statement

For the year ended 31st March 1997

	Note	1997 £m	1997 £m	1996 £m	1996 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	34		288		217
Returns on investments and servicing of finance					
Interest – paid (excluding finance leases)		(62)		(81)	
– paid (finance leases)		(8)		(16)	
– received		20		16	
Dividends – received from associated undertakings		13		22	
– received from other investments		21		22	
– paid to minority shareholders		(9)		(22)	
Net cash outflow from returns on investments and servicing of finance			(25)		(59)
Taxation paid			(44)		(67)
Capital expenditure					
Tangible fixed assets – purchases	16	(170)		(215)	
– disposals		40		32	
Net cash outflow from capital expenditure and financial investment			(130)		(183)
Cash flow before acquisitions and financing			89		(92)
Acquisitions and disposals					
Purchase of – subsidiary undertakings	35	(8)		(215)	
– associates and other investments	35	(2)		(10)	
Disposal of – subsidiary undertakings	35	61		62	
– associates and other investments	35	–		3	
Net cash inflow/(outflow) from acquisitions and disposals			51		(160)
Net cash inflow/(outflow) before financing and dividends			140		(252)
Equity dividends paid by parent company			(50)		(33)
Management of liquid resources – short-term deposits	36		(1)		49
Financing					
Issue of Pilkington plc ordinary shares		37		308	
Issue to minorities		8		–	
New loans taken out	36	72		327	
Loans repaid	36	(208)		(403)	
Finance leases repaid	36	(16)		–	
Net cash (outflow)/inflow from financing			(107)		232
Decrease in cash			(18)		(4)
Cash flows of subsidiaries acquired and discontinued in the year					
		Acquisitions		Discontinued	
		1997	1996	1997	1996
		£m	£m	£m	£m
Net cash (outflow)/inflow from operating activities		(2)	38	(3)	4
Net cash outflow from returns on investments and servicing of finance		–	(2)	–	–
Net cash outflow from capital expenditure and financial investment		(5)	(16)	(3)	(3)
Net cash inflow/(outflow) from acquisitions and disposals		3	–	(5)	–
Net cash outflow from financing		–	(32)	(1)	(2)
Decrease in cash		(4)	(12)	(12)	(1)

Comparative figures have been revised to take account of the introduction of the revision to Financial Reporting Standard No. 1.

Notes on the financial statements

	1997			1996		
	Turnover	Operating profit/(loss)	Net operating assets	Turnover	Operating profit/(loss)	Net operating assets
	£m	£m	£m	£m	£m	£m
1 Segmental analysis of continuing operations before exceptional items						
Flat and safety glass – Building products	1,547	80	988	1,598	161	1,134
– Automotive products	1,322	91	487	1,178	68	592
– Total	2,869	171	1,475	2,776	229	1,726
Other trading companies	9	–	13	14	2	35
Group licensing income	–	11	–	–	11	–
Group operations/technology management	–	(30)	(11)	–	(28)	(18)
	2,878	152	1,477	2,790	214	1,743
United Kingdom	464	29	234	456	57	257
Europe (excluding United Kingdom)	1,229	31	668	1,165	63	965
North America	752	66	229	737	59	191
Rest of the World	433	45	357	432	52	348
Group operations/technology management	–	(19)	(11)	–	(17)	(18)
	2,878	152	1,477	2,790	214	1,743
Flat and safety glass analysed by geographic segments						
Europe	1,696	61	902	1,618	119	1,216
North America	749	65	218	736	58	161
Rest of the World	424	45	355	422	52	349
Total	2,869	171	1,475	2,776	229	1,726

Net operating assets are analysed in note 5.

Turnover derived from intra segmental transactions between building products and automotive products amounted to £128 million in 1997 (1996 £138 million). Other intra segmental turnover is not material.

	1997			1996		
	Turnover	Operating (loss)	Net operating assets	Turnover	Operating profit/(loss)	Net operating assets
	£m	£m	£m	£m	£m	£m
2 Segmental analysis of discontinued operations before exceptional items						
Other trading companies	41	(4)	–	109	–	44
United Kingdom	4	–	–	11	3	16
Europe (excluding United Kingdom)	9	–	–	21	2	(2)
North America	23	(4)	–	61	(9)	29
Rest of the World	5	–	–	16	4	1
	41	(4)	–	109	–	44

Net operating assets are analysed in note 5.

Discontinued operations in 1997 comprise the Pilkington Barnes Hind contact lens business. Comparative figures also include the Pilkington Barnes Hind lenscare and Paragon Optical businesses.

3 Acquisitions

The profit and loss account on page 14 discloses the turnover and operating profit before exceptional items arising from acquisitions. Turnover on acquisitions amounted to £13 million (1996 £156 million) and operating profit amounted to £nil (1996 £13 million). The principal acquisitions in 1997 were the Plyglass business, Combiglas AB and Glastral Norr AB. Further details regarding acquisitions made in the year are disclosed in note 35.

4 Geographical analysis of turnover by markets	1997		1996	
	Group £m	%	Group £m	%
<i>This analysis of turnover shows the markets in which the Group's products are sold, whereas the regional analysis in notes 1 and 2 relates to the domicile of the Group undertakings making the sales.</i>				
Continuing operations				
United Kingdom	393	14	375	14
Europe (excluding United Kingdom) – EU	1,066	37	1,094	39
– Non EU	153	5	83	3
North America	745	26	726	26
Australasia	234	8	235	8
South America	223	8	216	8
Rest of the World	64	2	61	2
	2,878	100	2,790	100
Discontinued operations				
United Kingdom	4	10	7	6
Europe (excluding United Kingdom) – EU	9	22	22	20
North America	23	56	57	52
Australasia	2	5	5	5
Rest of the World	3	7	18	17
	41	100	109	100

5 Net operating assets	Continuing operations		Discontinued operations	
	1997 £m	1996 £m	1997 £m	1996 £m
<i>The net operating assets referred to in notes 1 and 2 comprise the following:</i>				
Tangible assets	1,596	1,824	–	21
Stocks	398	460	–	20
Debtors – falling due within one year	465	552	–	24
– falling due after more than one year	33	22	–	1
Creditors – falling due within one year	(499)	(540)	–	(17)
– falling due after more than one year	(5)	(5)	–	(1)
Provisions	(511)	(570)	–	(4)
	1,477	1,743	–	44

Creditors exclude loans and overdrafts, taxation on profits, finance leases and dividends. Debtors exclude taxation and deferred taxation recoverable. Provisions include post-retirement healthcare benefits but exclude deferred taxation.

6 Change in accounting policy

The company has changed its accounting policy on the carrying value of its subsidiary undertakings. Previously these were valued at the underlying net asset value of the subsidiaries concerned, the new policy is to carry its investment in subsidiary undertakings at their original historical cost less any permanent diminution in value. This change in policy is consistent with the treatment of fixed tangible assets and brings the company into line with the majority of public listed companies.

The effect of the change on the carrying value of subsidiaries is summarised as follows:

	New Policy £m	Old Policy £m
Investment – subsidiary undertakings		
At 31st March 1996	632	675
At 31st March 1997	537	414

Notes on the financial statements

7 Exceptional items	1997			1996		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Restructuring costs charged to operating profit	(40)	-	(40)	(155)	-	(155)
Loss on disposal of fixed assets of continuing operations	(7)	-	(7)	(2)	-	(2)
Loss on disposal of operations	-	(8)	(8)	-	-	-
	(47)	(8)	(55)	(157)	-	(157)
Taxation			(2)			-
Attributable to minority interests			(1)			11
			(58)			(146)

The principal exceptional items in 1997 were a charge against operating profits of £40 million to cover asset write-downs and redundancies associated with restructuring of the Group's automotive glass operations in Europe, a loss on disposal of Pilkington Barnes Hind of £10 million and a loss on the sale of properties in Germany of £7 million.

The principal exceptional item in 1996 was a charge of £155 million, consisting of asset write-downs of £82 million and the costs of redundancy and restructuring of £73 million, in respect of a major restructuring programme covering the Group's automotive glass operations in Europe and North America and its building products business in Germany.

8 Statutory information	1997				1996		
	Continuing £m	Acquisitions £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Turnover	2,865	13	41	2,919	2,790	109	2,899
Cost of sales	(2,235)	(10)	(37)	(2,282)	(2,250)	(89)	(2,339)
Gross profit	630	3	4	637	540	20	560
Net operating expenses							
Distribution costs	(242)	(1)	(3)	(246)	(242)	(8)	(250)
Administrative expenses	(287)	(2)	(5)	(294)	(250)	(12)	(262)
Trading profit/(loss)	101	-	(4)	97	48	-	48
Group licensing income	11	-	-	11	11	-	11
Operating profit/(loss)	112	-	(4)	108	59	-	59

Cost of sales on continuing operations and acquisitions in 1997 include £40 million (1996 £155 million) of exceptional charges on restructuring (note 7).

	1997 £m	1996 £m
<i>Operating profit is after charging/(crediting):</i>		
Depreciation of tangible fixed assets – normal	149	156
– exceptional	26	89
Net loss on disposal of tangible fixed assets	1	1
Operating lease costs – plant and machinery	34	40
– property	21	23
Total research and development expenditure	51	52
– financed directly by customers	(2)	(1)
<i>Auditors' remuneration:</i>		
Audit – Coopers & Lybrand	2	2
Audit of the company £237,000 (1996 £217,000)		
Other services provided by Coopers & Lybrand – United Kingdom	-	1
– Overseas	1	1

9 Associated undertakings	1997	1996
	£m	£m
<i>The financial statements include the following:</i>		
Share of profits included in the Group profit and loss account	23	43
Less share of distributions	(13)	(23)
	10	20
Taxation (note 12)	(4)	(8)
Share of profits retained by associated undertakings (notes 18 and 32)	6	12

The share of profits of associated undertakings in 1996, referred to above, includes the Group's 50% share of SIV for the period from 1st January 1995 to 31st October 1995.

	Group's share of profits		Group's share of net assets	
	1997	1996	1997	1996
	£m	£m	£m	£m
<i>Segmental analysis of associated undertakings:</i>				
Flat and safety glass – Europe	2	14	26	25
– Rest of the World	21	26	83	84
Other trading companies	–	3	–	4
	23	43	109	113
United Kingdom	3	2	6	4
Europe (excluding United Kingdom)	(1)	14	20	25
North America	–	–	1	1
Rest of the World	21	27	82	83
	23	43	109	113

The major associated undertaking is Cebrace (Rest of the World).

The above figures are based on audited financial statements with the exception of certain small associated undertakings where management statements have been used. In addition to Cebrace, there are 16 associated undertakings whose accounts are not co-terminous with those of Pilkington plc. The principal associated undertakings are noted on page 42.

10 Investment income	1997	1996
	£m	£m
Unlisted trade investments	19	21
Listed marketable investments	2	1
	21	22

11 Interest payable less receivable	1997	1996
	£m	£m
Interest payable on – bank loans and overdrafts	31	37
– other loans	38	43
– finance leases	6	4
Less – interest receivable	(15)	(16)
– interest capitalised	–	(1)
	60	67

Interest payable includes the results of interest rate swap transactions.

Notes on the financial statements

12 Taxation	1997 £m	1996 £m
Profit and loss account		
<i>The taxation charge in the Group profit and loss account comprises:</i>		
United Kingdom corporation tax at 33% (1996 – 33%)	16	38
Less double taxation relief	(1)	(12)
	15	26
Overseas taxation	31	42
Deferred taxation	(1)	–
Advance corporation tax, previously written off, now written back	(3)	(8)
	42	60
Under/(over) provision in respect of prior years	3	(5)
	45	55
Associated undertakings (note 9)	4	8
	49	63

Overseas taxation includes a tax charge of £2 million in respect of exceptional items (1996 nil) (note 7).

The prior year's corporation tax charge arises from the shortfall of credits for overseas taxation.

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
Balance sheets				
Assets (notes 21 and 22)				
Debtors – amounts falling due within one year				
Advance corporation tax recoverable	1	7	–	18
Corporation tax recoverable	12	–	9	–
Overseas tax recoverable	11	–	10	–
	24	7	19	18
Debtors – amounts falling due after more than one year				
Advance corporation tax recoverable	9	8	7	7
Deferred taxation on post-retirement healthcare benefits	55	–	62	–
	64	8	69	7
Liabilities (note 24)				
United Kingdom corporation tax	15	–	10	–
United Kingdom advance corporation tax on dividends	13	11	10	10
Overseas taxation	22	–	23	–
	50	11	43	10

No provision has been made for additional taxation which would arise on the distribution of profits retained by overseas subsidiary and associated undertakings.

At 31st March 1997 certain United Kingdom and overseas subsidiary undertakings had accumulated tax losses estimated at £307 million (1996 £358 million) which are available for offset against future taxable profits in those companies. Advance corporation tax written off to date amounts to £19 million (1996 £22 million) and is available for offset against future United Kingdom corporation tax liabilities. The future benefit of these losses and advance corporation tax has not been accounted for in the provision for deferred taxation (note 28).

The taxation credit to profits for deferred taxation calculated on a full liability basis would amount to £26 million (1996 £4 million charge).

	1997 £m	1996 £m
13 Minority interests (profit and loss account)		
Equity	15	3
Non equity	11	14
	26	17

	Net paid/payable per ordinary share		Gross equivalent* per ordinary share		Net paid/payable	
	1997	1996	1997	1996	1997 £m	1996 £m
14 Dividends						
<i>Equity shares:</i>						
Interim paid 14th February 1997	1.75p	1.75p	2.19p	2.19p	18	14
Final payable 15th August 1997	3.25p	3.25p	4.06p	4.06p	34	34
	5.00p	5.00p	6.25p	6.25p	52	48

*Gross equivalent receivable by ordinary shareholders

	1997	1996
15 Earnings per share		
Average number of shares	1,031m	869m
	£m	£m
Profit/(loss) for the financial year attributable to shareholders of Pilkington plc	2	(25)
Add exceptional items (note 7)	58	146
Profit for the financial year attributable to shareholders of Pilkington plc after adjusting for exceptional items	60	121
	pence	pence
Earnings/(loss) per share	0.2	(2.9)
Adjusted earnings per share excluding exceptional items	5.8	14.0
The adjusted earnings per share is disclosed as an alternative figure for earnings/(loss) per share. This measurement of earnings per share is considered by the directors to be a more meaningful indication of the Group's underlying performance.		
(Loss)/earnings per share on a nil distribution basis	(0.1)	5.5

Notes on the financial statements

16 Tangible assets

For the year ended 31st March 1997

	Group			Company		
	Land and buildings £m	Plant, machinery and vehicles £m	Total £m	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
At cost or valuation						
At beginning of year	1,006	2,350	3,356	8	4	12
Exchange rate adjustments	(126)	(241)	(367)	-	-	-
Changes in composition of the Group	(20)	(41)	(61)	-	-	-
Additions during year	14	172	186	-	-	-
Revaluation	(1)	-	(1)	-	-	-
Assets sold or scrapped during year	(55)	(64)	(119)	(1)	-	(1)
At end of year	818	2,176	2,994	7	4	11
Accumulated depreciation						
At beginning of year	355	1,156	1,511	2	2	4
Exchange rate adjustments	(53)	(125)	(178)	-	-	-
Changes in composition of the Group	(8)	(28)	(36)	-	-	-
Depreciation for year	24	151	175	-	-	-
Revaluation	-	-	-	-	-	-
Assets sold or scrapped during year	(11)	(63)	(74)	-	-	-
At end of year	307	1,091	1,398	2	2	4
Written down book value at end of year	511	1,085	1,596	5	2	7
<i>Cost or valuation at 31st March 1997 represented by:</i>						
Valuations in 1996/97	33	37	70	-	-	-
Cost	478	1,048	1,526	5	2	7
	511	1,085	1,596	5	2	7
<i>Land and buildings at net book value comprises:</i>						
Freehold	494			5		
Long leasehold	4			-		
Short leasehold	13			-		
	511			5		

Tangible assets include the cost of assets in the course of construction and payments on account amounting to £35 million (1996 £82 million).

Plant, machinery and vehicles include items acquired under finance leases comprising cost of £129 million (1996 £130 million), accumulated depreciation of £38 million (1996 £41 million) and written down value of £91 million (1996 £89 million). Depreciation charged in the year on these assets amounted to £8 million (1996 £9 million).

If the revalued tangible assets, totalling a net book value of £70 million (1996 £83 million), all of which were last revalued in 1997 by officers of the companies owning the assets, had been accounted for on an historical cost basis, their historical cost would have been £98 million (1996 £88 million), accumulated depreciation £38 million (1996 £32 million), and written down value at 31st March 1997 of £60 million (1996 £56 million).

Additions during the year include finance leases entered into amounting to £15 million (1996 £16 million). Interest capitalised during the year was nil (1996 £1 million). Cash expenditure was £170 million (1996 £215 million).

16 Tangible assets continued

Additions during the year to tangible assets are analysed into the following business segments:

	1997 £m	1996 £m
Flat and safety glass – Europe	86	105
– North America	49	59
– Rest of the World	45	56
.....		
– Total	180	220
Other trading companies	4	9
Group operations/technology management	2	3
.....		
	186	232

The depreciation charge for the year amounting to £175 million (1996 £245 million) includes exceptional asset write-downs of £26 million (1996 £89 million).

17 Investments – subsidiary undertakings (company)

	Shares Restated £m	Loans £m	Total Restated £m
Cost			
At beginning of year	632	525	1,157
Additions	–	31	31
Disposals	(95)	–	(95)
.....			
At end of year	537	556	1,093

Principal subsidiary undertakings are listed on pages 41 and 42.

The shares in subsidiary undertakings, formerly revalued to reflect the underlying net asset values of the companies, have been restated to historical cost, following the change in the accounting policy, detailed in note 6.

18 Investments – associated undertakings

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
Cost or valuation				
At beginning of year	87	–	112	–
Exchange rate adjustments	(3)	–	4	–
Additions	–	–	16	–
Disposals	(4)	–	(1)	–
Transfer to subsidiary undertakings	(4)	–	(45)	–
Transfer from trade investments	1	–	–	–
Other movements	(2)	–	1	–
.....				
	75	–	87	–

Notes on the financial statements

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
18 Investments – associated undertakings continued				
Share of post-acquisition profits less losses				
At beginning of year	30	-	30	-
Exchange rate adjustments	(2)	-	2	-
Retained profits less losses (note 32)	6	-	12	-
Capitalisation of pre-acquisition profits of SIV	-	-	(14)	-
	34	-	30	-
Provisions				
At beginning of year	(4)	-	(4)	-
Released on disposal	4	-	-	-
	-	-	(4)	-
At end of year	109	-	113	-

Investments in associated undertakings are valued by the directors at the Group's share of their underlying net asset value. All the investments are unlisted except for Hankuk Safety Glass Co Ltd, which is listed on the Korean Stock Exchange. The market value of this investment at 31st March 1997 amounted to £8 million (1996 £17 million), compared with the underlying net asset value of £7 million (1996 £9 million).

No additional taxation would be payable if the investments were sold at valuation.

Principal associated undertakings are listed on page 42 together with further details thereon.

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
19 Investments – trade investments				
Cost or valuation				
At beginning of year	87	-	86	-
Exchange rate adjustments	(16)	-	-	-
Additions	2	-	2	-
Disposals	-	-	(1)	-
Transfer to associated undertakings	(1)	-	-	-
At end of year	72	-	87	-
Trade investments at end of year:				
Listed investment at cost	9	-	11	-
Unlisted investments at cost	11	-	13	-
Unlisted investment at 1985 directors' valuation	52	-	63	-
	72	-	87	-
Market value of listed investment	12	-	20	-
Directors' current valuation of unlisted investments	111	-	113	-
Historical cost of investments	30	-	29	-

No additional taxation would be payable if the investments were sold at the valuation stated above.

Principal trade investments are noted on page 42 together with further details thereon. The largest investment is Vitro Plan SA de CV and is included in the financial statements at a valuation made in 1985. The listed investment is Shanghai Yaohua Pilkington Glass Co Ltd, which is quoted on the Shanghai Stock Exchange.

Investments are valued by the directors taking account of profits and cash flows and using an appropriate multiple.

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
20 Stocks				
Raw materials	73	-	84	-
Stores	37	-	40	-
Work in progress	39	-	53	-
Value of work done on long term contracts	2	-	2	-
Finished goods	248	-	301	-
	399	-	480	-
Less progress payments	(1)	-	-	-
	398	-	480	-

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
21 Debtors – amounts falling due within one year				
Trade debtors	368	-	470	1
Amounts owed by – Group undertakings	-	3	-	2
– associated undertakings	34	-	15	-
Other debtors	37	2	68	1
Advance corporation tax recoverable	1	7	-	18
Corporation tax recoverable	12	-	9	-
Overseas tax recoverable	11	-	10	-
Prepayments and accrued income	23	-	23	1
	486	12	595	23
Trade debtors subject to factoring arrangements	25	-	-	-
Less non-returnable amounts received	(22)	-	-	-
Total debtors falling due within one year	489	12	595	23

Certain trade debtors, subject to factoring arrangements, are discounted, whereby 90% of the outstanding balance is discounted without recourse by banks in the ordinary course of business. The non-returnable amount of the factoring arrangement is deducted from the trade debtors concerned.

The directors report that the Group is not obliged to support any losses on the portion of the debt factored, nor does it intend to do so, and the relevant banks have confirmed their agreement to this position in writing.

The factoring charge in the year, in respect of the above transaction, amounted to nil (1996 nil).

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
22 Debtors – amounts falling due after more than one year				
Amounts owed by associated undertakings	-	-	5	-
Other debtors	33	-	18	-
Advance corporation tax recoverable	9	8	7	7
Deferred taxation	55	-	62	-
	97	8	92	7

Deferred taxation represents the tax relief calculated at a tax rate of 34% (1996 – 35%) on the US post-retirement healthcare benefits.

Notes on the financial statements

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
23 Investments – marketable				
<i>Listed investments at cost:</i>				
– London Stock Exchange	17	–	14	–
– Other Stock Exchanges	9	–	10	–
	26	–	24	–
Unlisted investments at cost and at directors' valuation	11	–	17	–
Short term loans	2	–	1	–
	39	–	42	–

The market value of the listed investments at 31st March 1997 amounted to £26 million (1996 £24 million).

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
24 Creditors – amounts falling due within one year				
Bank overdrafts	44	–	81	–
Current portion of – long term bank loans	38	–	24	–
– other long term loans	17	–	17	–
	99	–	122	–
Loans and overdrafts (note 26)				
Payments received on account	3	–	5	–
Trade creditors	289	3	300	3
Amounts owed to – Group undertakings	–	3	–	3
– Associated undertakings	6	–	10	–
Social security	20	–	21	–
Pension fund contributions	1	–	1	–
Taxation – on profits	50	11	43	10
– other than on profits	23	–	22	–
Amounts owing under finance leases	11	–	10	–
Other creditors	48	3	48	3
Accruals	109	5	150	6
Dividends	34	34	34	34
	594	59	644	59
	693	59	766	59
Amounts secured on certain assets of undertakings in the Group	35	–	39	–

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
25 Creditors – amounts falling due after more than one year				
Bank loans	97	–	214	–
Other loans	393	72	487	79
	490	72	701	79
Loans (note 26)				
Amounts owed to Group undertakings	–	–	–	95
Amounts owing under finance leases – within five years	40	–	32	–
– over five years	38	–	50	–
Other creditors	5	–	6	–
	83	–	88	95
	573	72	789	174
Amounts secured on certain assets of undertakings in the Group	124	–	160	–

26 Analysis of bank loans, overdrafts and other loans shown in notes 24 and 25

				1997		1996	
m		Repayable	Group £m	Company £m	Group £m	Company £m	
Sterling		unsecured 7.5% bond	1998	72	72	79	79
		unsecured loans*	1997/1999	1	-	1	-
		currency swaps*		2	-	50	-
				75	72	130	79
US\$	300	unsecured 8.17% to 9.39% loans*	1998/2012	184	-	196	-
	150	unsecured 9.27% to 9.91% loans*	2000/2010	92	-	98	-
	60	unsecured 9.95% loan	1997/2002	37	-	46	-
	7	unsecured loans	1997/1998	4	-	4	-
	30	unsecured variable rate loan	2003	18	-	-	-
	(30)	back to back currency deposit	2003	(18)	-	-	-
	1	secured loan	1997	1	-	1	-
	25	unsecured overdrafts		15	-	23	-
(120)	currency swaps		(74)	-	(78)	-	
				423	-	290	-
D Mk	27	unsecured loans	1998	10	-	66	-
	32	secured loans	1998	11	-	33	-
	-	unsecured overdrafts		-	-	2	-
	75	currency swaps*		28	-	33	-
				134	-	134	-
Aus \$	110	unsecured variable rate loan	1998	53	-	77	-
	(110)	back to back currency deposit	1998	(53)	-	(77)	-
	76	unsecured loans	1998/2000	37	-	26	-
				76	-	26	-
Italian	320,500	unsecured variable rate loans	1997	117	-	134	-
Lira	(320,500)	back to back currency deposit	1997	(117)	-	(134)	-
	12,000	secured fixed rate loan	1997	4	-	-	-
	(12,000)	back to back currency deposit	1997	(4)	-	-	-
	17,900	unsecured loans	1997/2000	7	-	16	-
	115,106	secured loans	1997/2005	42	-	43	-
	20,541	unsecured overdrafts		7	-	32	-
				153,547	-	91	-
Other currencies		unsecured loans		32	-	96	-
		secured loans		14	-	32	-
		secured fixed rate loan	1997	9	-	-	-
		back to back currency deposit	1997	(9)	-	-	-
		unsecured overdrafts		17	-	17	-
		secured overdrafts		3	-	7	-
		currency swaps		47	-	-	-
				113	-	152	-
				589	72	823	79

*also guaranteed by Pilkington plc

The Group has re-balanced the currency allocation of its loan book using the swaps market.

Notes on the financial statements

26 Analysis of bank loans, overdrafts and other loans
shown in notes 24 and 25 continued

	1997		1996	
	Group £m	Company £m	Group £m	Company £m
<i>Loans and overdrafts:</i>				
Wholly repayable within five years	249	72	353	79
Repayable by instalments wholly or partly after five years	335	-	454	-
Wholly repayable after five years other than by instalments	5	-	16	-
	589	72	823	79
<i>Loans and overdrafts:</i>				
Due for repayment within one year	99	-	122	-
Due for repayment after one year and before two years	140	72	53	-
Due for repayment after two years and before five years	144	-	384	79
Due for repayment after five years	206	-	264	-
Total due for repayment after more than one year	490	72	701	79
	589	72	823	79

As a result of changes in exchange rates during the year, Group foreign currency borrowings, expressed in sterling, have reduced by £67 million (1996 increase £33 million).

27 Provisions for liabilities and charges

For the year ended 31st March 1997

	Deferred taxation	Pensions and similar obligations	Post retirement healthcare benefits	Other provisions	Total
	£m	£m	£m	£m	£m
Group					
At beginning of year	4	202	176	196	578
Exchange rate adjustments	-	(24)	(10)	(16)	(50)
Provided during year	(3)	12	13	37	59
Utilised during year	-	(17)	(18)	(43)	(78)
Changes in composition of the Group	-	-	-	3	3
At end of year	1	173	161	177	512
Company					
At beginning of year	-	6	2	5	13
Provided during year	-	2	-	-	2
Utilised during year	-	(2)	-	-	(2)
At end of year	-	6	2	5	13

Other provisions at 31st March 1997 include £17 million (1996 £16 million) for tank repairs, £64 million (1996 £83 million) for exceptional provisions on the termination of operations and the restructuring of continuing operations, £18 million (1996 £17 million) for holiday pay provisions, £10 million (1996 £9 million) for insurance claims provisions, £22 million (1996 £20 million) for warranty claims and £25 million (1996 £33 million) for personnel leaving indemnity re SIV's Italian employees.

28 Deferred taxation	1997		1996	
	Group £m	Company £m	Group £m	Company £m
<i>The balances included in provisions relate to:</i>				
Capital allowances in excess of related depreciation	1	-	3	-
<i>Other timing differences:</i>				
Provisions and accruals	-	-	1	-
	1	-	4	-
<i>Deferred taxation which has not been provided amounted to:</i>				
Capital allowances in excess of related depreciation	137	-	160	-
Revaluation of fixed assets and capital gains	73	-	88	-
Other timing differences	(44)	-	(25)	-
	166	-	223	-

29 Deferred income	1997		1996	
	Group £m	Company £m	Group £m	Company £m
At beginning of year	21	22	11	25
Exchange rate adjustments	(2)	-	-	-
Changes in composition of the Group	-	-	12	-
Investment grants receivable	5	-	1	-
	24	22	24	25
<i>Released to profit and loss account in the year:</i>				
Investment grants	(5)	-	(3)	-
Other deferred income	(5)	(4)	-	(3)
At end of year	14	18	21	22

30 Commitments and contingent liabilities	1997		1996	
	Group £m	Company £m	Group £m	Company £m
(a) Capital expenditure				
Contracts placed but not provided for in the financial statements	37	-	39	-

(b) Operating lease commitments	1997		1996	
	Property £m	Other £m	Property £m	Other £m
<i>The Group's operating lease commitments for the following financial year are as follows:</i>				
For leases expiring				
Within one year	2	13	5	7
Between two and five years	12	12	20	16
After five years	10	1	19	-
	24	26	44	23

Notes on the financial statements

30 Commitments and contingent liabilities *continued*

(c) Minority interests in German subsidiary undertakings

Pilkington Deutschland GmbH has made an offer to acquire the minority interests in Flachglas AG and Dahlbusch AG. If the remaining minority shareholders in these companies at 31st March 1997 accept, the cost will be £27 million in addition to the £98 million paid to shareholders accepting the offer prior to 31st March 1997. Certain minority shareholders have legally challenged the offer as insufficient. The matter is before the German Courts who have asked an independent expert to provide valuation opinions. These valuation opinions have been prepared and propose an increase in the offer price in respect of Flachglas AG of approximately 22% and in respect of Dahlbusch AG of approximately 19% and an increase in the guaranteed dividend in respect of Flachglas AG of approximately 8% and in respect of Dahlbusch AG of approximately 14%. These valuation opinions do not constitute rulings and are not binding on the Courts, who have asked the parties to review and comment on them. There are unlikely to be decisions by the Courts in the Flachglas AG case before mid-1998 and in the Dahlbusch AG case before mid-1999. Any such decisions would be capable of being the subject of an appeal.

(d) Libbey-Owens-Ford Co minority holding

In the event of a change of control of Pilkington plc, Nippon Sheet Glass has the option to require Pilkington to buy its 20% shareholding in Libbey-Owens-Ford Co at a price of \$230 million (£141 million).

(e) Triplex Safety Glass Limited minority holding

In the event of a change of control of Pilkington plc, Nippon Sheet Glass has the option to require Pilkington to buy its 20% shareholding in Triplex Safety Glass Limited at a price of £13 million.

(f) Pilkington Deutschland GmbH preference shares

In the event of a change of control of Pilkington plc, the preference shareholders of Pilkington Deutschland GmbH have the option to require Pilkington to buy these preference shares at a total price of DM 320 million (£117 million).

(g) Other guarantees and contingent liabilities

At 31st March 1997 the Group has guaranteed, in the ordinary course of business, secured bank loans of £24 million to third parties (1996 £20 million). The Group had other contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions, some of which are the subject of litigation. In the opinion of the directors, the outcome of such litigation will not have a material effect on the Group's consolidated financial position.

31 Called up share capital

	1997 Company £m	1996 Company £m
Ordinary shares of 50p each		
Authorised	750	750
Issued and fully paid	518	502

(a) Ordinary shares

During the year 28 million shares were issued to warrant holders exercising their entitlements to procure shares, 1 million ordinary shares were allotted to shareholders in lieu of cash dividends, 1 million ordinary shares were issued to employees under the savings related and worldwide share option schemes and 2 million ordinary shares were issued on the exercise of options under the senior executives' share option schemes.

(b) Options

Under the company's savings-related share option schemes, options were outstanding over a total of 14 million ordinary shares at prices between 73.42p and 180.21p, exercisable between 1997 and 2003.

Under the company's senior executives' share option schemes, options were outstanding over a total of 19 million ordinary shares at prices between 82.95p and 295.57p, exercisable between 1997 and 2006. There are currently 289 executives with outstanding options, of whom 71 are overseas.

Under the company's worldwide share option scheme, options were outstanding over a total of 5 million ordinary shares at prices between 145.88p and 231.69p, exercisable between 1997 and 2001. There are currently 6,216 employees with these options, of whom 2,287 are overseas.

Of the 38 million options outstanding under the company's various option schemes, 32 million have an exercise price above the share price of 120p at 31st March 1997.

(c) Warrants

At 31st March 1997 there were 53 million warrants in issue, each warrant entitling the holder to procure up to 4th May 1998 the allotment of one ordinary share in Pilkington plc at a price of 116p.

32 Movements on share premium account and reserves

For the year ended 31st March 1997

	Share premium account £m	Revaluation reserves £m	Other reserves £m	Goodwill reserve £m	Profit and loss account £m	Total £m
Group						
At beginning of year	274	360	236	(406)	5	469
Retained loss for year	-	-	-	-	(50)	(50)
Premium on shares issued	21	-	-	-	-	21
Revaluations in the year	-	(3)	-	-	-	(3)
Goodwill written off (note 35)	-	-	-	(7)	-	(7)
Unrealised exchange rate adjustments	-	(175)	(19)	36	47	(111)
Transfers between reserves	1	(6)	(4)	-	9	-
At end of year	<u>296</u>	<u>176</u>	<u>213</u>	<u>(377)</u>	<u>11</u>	<u>319</u>
Company (restated)						
At beginning of year – as previously reported	274	73	16	(6)	112	469
Prior year adjustment	-	(43)	-	-	-	(43)
At beginning of year – as restated	<u>274</u>	<u>30</u>	<u>16</u>	<u>(6)</u>	<u>112</u>	<u>426</u>
Retained loss for year	-	-	-	-	(6)	(6)
Goodwill written back	-	-	-	1	-	1
Premium on shares issued	21	-	-	-	-	21
Transfers between reserves	1	(30)	29	-	-	-
At end of year	<u>296</u>	<u>-</u>	<u>45</u>	<u>(5)</u>	<u>106</u>	<u>442</u>

The reserves of the parent company have been restated following the change in accounting policy, as set out in note 6.

The profit for the year attributable to shareholders of the company was £46 million (1996 £34 million). As permitted by Section 230 of the Companies Act 1985 (as amended), the profit and loss account of the company has not been included in these financial statements.

At 31st March 1997 the share of profits less losses retained by associated undertakings included within the Group's profit and loss account balance amounted to £34 million (1996 £30 million) of which £3 million (1996 £4 million) is considered to be distributable, the remainder being subject to restriction within the countries in which the associated undertakings operate.

The net exchange gains and losses on foreign currency borrowings less deposits included within revaluation reserve amounted to a profit of £5 million (1996 profit £17 million).

The goodwill reserve represents goodwill on acquisitions arising over the past 11 years. The reserve excludes goodwill on acquisitions made more than 11 years ago and no longer identifiable.

The parent company's goodwill adjustment of £1 million in the year arises from goodwill transferred to Profit and Loss Account on the transfer of that goodwill to other Pilkington subsidiary companies.

	1997 £m	1996 £m
Group		
Analysis of the retained (loss)/profit for the year		
Retained by:		
Pilkington plc	(6)	(14)
Subsidiary undertakings	(50)	(71)
	<u>(56)</u>	<u>(85)</u>
Associated undertakings (note 9)	6	12
	<u>(50)</u>	<u>(73)</u>

The distributable reserves of the parent company amount to £101 million. The share premium account and other reserves of the parent company are not available for distribution to shareholders in normal circumstances.

Notes on the financial statements

33 Minority interests (balance sheet)	1997	1996
	£m	£m
Equity minority interests	122	113
Non equity minority interests	164	190
	286	303

The non equity minority interests relate principally to the preference shareholders in Pilkington Deutschland GmbH and such shareholders have the right to a gross dividend of 6.7% and have the right to require Pilkington to buy the preference shares, in the event of a change of control of Pilkington plc, at a total price of DM 320 million (£117 million).

34 Reconciliation of operating profit to net cash inflow from operating activities	1997		1996	
	£m	£m	£m	£m
Operating profit		108		59
Exceptional items (included in operating profit)		40		155
Operating profit before exceptional items		148		214
Depreciation		149		156
Deferred income release less receivable		(5)		(2)
Loss on disposal of tangible fixed assets (included in operating profit)		1		1
Loss on disposal of investments (included in operating profit)		-		1
Others (net)		(3)		(2)
<i>Cash inflow/(outflow) arising from changes in working capital:</i>				
Stocks and work in progress	19		(3)	
Debtors	19		(30)	
Creditors	(4)	34	(53)	(86)
Provisions		(1)		(8)
Exceptional costs – restructuring and disposal of operations		(35)		(57)
Net cash inflow from operating activities		288		217

Changes in working capital and provisions exclude balances relating to dividends, finance leases, taxation on profits and exceptional items.

35 Acquisitions and disposals	Acquisitions		Disposals	
	1997 £m	1996 £m	1997 £m	1996 £m
<i>Net assets of subsidiary undertakings comprised:</i>				
Tangible assets	(8)	(204)	33	32
Investments	-	(17)	-	-
Stocks	(2)	(63)	20	12
Debtors	(4)	(110)	26	6
Loans and finance leases	1	89	-	-
Creditors and provisions	8	155	(12)	(1)
	(5)	(150)	67	49
Costs incurred on disposals	-	-	9	3
Provision/(release) for costs	-	-	(7)	11
Goodwill	(7)	(110)	-	-
Loss on disposal	-	-	(8)	(1)
	(12)	(260)	61	62
Satisfied by				
– cash	(8)	(215)	61	62
– transfer from associated undertakings	(4)	(45)	-	-
	(12)	(260)	61	62

The principal acquisitions were the Plyglass business, Combiglas AB, Glastral Norr AB and additional shares acquired from the minority shareholders of Flachglas AG and Dahlbusch AG.

The principal disposal was the Pilkington Barnes Hind contact lens business.

	Acquisitions		Disposals	
	1997 £m	1996 £m	1997 £m	1996 £m
<i>Other investments comprised:</i>				
(Purchased)/sold – associated undertakings	-	(8)	4	47
– trade investments	(2)	(2)	-	1
	(2)	(10)	4	48
Goodwill	-	-	-	-
	(2)	(10)	4	48
Satisfied by				
– cash	(2)	(10)	-	3
– transfer to subsidiary undertakings	-	-	4	45
	(2)	(10)	4	48

There were no material fair value adjustments attributable to the acquisition of subsidiary undertakings in the year.

Notes on the financial statements

	Cash	Overdrafts	Marketable investments	Bank and other loans	Finance leases	Net debt
	£m	£m	£m	£m	£m	£m
36 Analysis of changes in net debt						
Balance at the year ended 31st March 1995	185	(91)	76	(696)	(76)	(602)
Net cash movement	(17)	13	(49)	76	–	23
Subsidiaries acquired	–	–	12	(89)	–	(77)
New finance leases undertaken	–	–	–	–	(16)	(16)
Exchange rate adjustments	6	(3)	3	(33)	–	(27)
Balance at the year ended 31st March 1996	174	(81)	42	(742)	(92)	(699)
Net cash movement	(49)	31	1	136	16	135
Subsidiaries sold	–	–	(1)	–	–	(1)
New finance leases undertaken	–	–	–	–	(15)	(15)
Exchange rate adjustments	(10)	6	(3)	61	2	56
Balance at the year ended 31st March 1997	115	(44)	39	(545)	(89)	(524)

Marketable investments are liquid resources and consist of:

– government bonds	24
– other investments	15
	39

37 Employee pay and numbers (excluding directors)

	1997 £m	1996 £m		1997 £m	1996 £m
United Kingdom			Overseas		
<i>Remuneration – aggregate for the year</i>			<i>Remuneration – aggregate for the year</i>		
Wages and salaries	145	150	Wages and salaries	651	630
Social security costs	11	12	Social security costs	99	101
Pension costs	12	11	Pension costs	43	44
	168	173		793	775

	Number 1997	Number 1996
<i>Location of employees – average number employed</i>		
United Kingdom	7,900	8,200
Europe (excluding United Kingdom)	16,300	12,400
North America	8,500	8,800
Australasia	3,600	3,600
South America	2,800	2,800
	39,100	35,800

At 31st March 1997 total numbers employed were: United Kingdom 7,500 (1996 – 8,100), and overseas 30,700 (1996 – 31,000).

38 Directors' emoluments

The basis of executive directors' remuneration is set out in the Report of the Remuneration Committee on pages 5 to 6.

<i>Directors' emoluments were:</i>	Base salary £000	Performance bonus £000	Taxable benefits £000	1997 Total £000	Base salary £000	Performance bonus £000	Taxable benefits £000	1996 Total £000
Executive directors								
Roger Leverton*	416	-	26	442	375	60	12	447
Peter Grunwell*	472	-	10	482	333	53	11	397
Glen Nightingale	260	-	16	276	239	45	16	300
Andrew Robb	260	-	16	276	239	45	12	296
Sir Robin Nicholson*	132	-	5	137	218	42	10	270
Sir Antony Pilkington*	-	-	-	-	251	217	5	473
Non executive directors								
Sir Nigel Rudd (Chairman)**	120	-	-	120	85	-	-	85
Sir Michael Quinlan	25	-	-	25	22	-	-	22
John Macomber	22	-	-	22	20	-	-	20
George Simpson	25	-	-	25	22	-	-	22
Hans-Peter Keitel	22	-	-	22	13	-	-	13
Hilmar Kopper*	-	-	-	-	6	-	-	6
Total emoluments	1,754	-	73	1,827	1,823	462	66	2,351
Pension costs				1,064				1,040
				2,891				3,391

*Roger Leverton resigned from the board on 20th May 1997, Peter Grunwell retired from the board on 31st March 1997, Sir Robin Nicholson retired from the board on 31st July 1996 and Sir Antony Pilkington and Hilmar Kopper retired from the board on 20th July 1995.

**Sir Nigel Rudd's remuneration as chairman amounting to £120,000 (1996 £80,000) was paid to Williams PLC, his employer.

- (a) Roger Leverton was the highest paid director in 1997 after taking into account the gains of £372,000 made on the exercise of share options. (1996 Sir Antony Pilkington).
- (b) Peter Grunwell, as director of the Group's operations in North America, was based in the United States throughout the year. His base salary takes account of United States conditions.
- (c) The base salaries of Peter Grunwell and Sir Robin Nicholson include £126,000 and £55,000 respectively of non-pensionable payments for untaken leave.
- (d) Bonuses are payable on the Group achieving specific profit and cash flow targets. No bonuses were paid in 1997. In the event that all targets had been fully achieved, the maximum performance bonus payable would have been £509,000 (1996 £760,000).
- (e) Only the basic salary of the executive directors is pensionable.

In 1996/97, apart from Roger Leverton and Andrew Robb, executive directors were members of the Pilkington Executive Pension Scheme which entitles them to a pension on retirement of two thirds of pensionable salary. The company paid an annual contribution to the pension scheme of 30% of salary.

The pension arrangements of Roger Leverton and Andrew Robb are affected by the Inland Revenue earnings cap on approved pension benefits. Their pension arrangements entitle them to similar retirement pensions to the other executive directors. They are partly funded through personal plans and the balance is unfunded but fully provided in the financial statements. The aggregate cost of these arrangements was £883,000 (1996 £791,000), of which £675,000 (1996 £602,000) was attributable to Roger Leverton.

The increases in annual accrued pension entitlements for each director during the year and the total annual accrued pension payable at the normal retirement age of 60 are set out in the following table:

Notes on the financial statements

38 Directors' emoluments continued

	Years of service	Accrued annual pension payable		
		During 1997 £000	At 31st March 1997 £000	At 31st March 1996 £000
Roger Leverton	4	37	147	110
Peter Grunwell	35	3	167	164
Glen Nightingale	34	9	164	155
Andrew Robb	7	12	69	57
Sir Robin Nicholson	11	11	143	132

(f) Directors have been granted options to subscribe for ordinary shares under the company's share option schemes, and to participate in the deferred bonus plan, details of which are given in note 39.

39 Directors' interests in share capital and options

The interests of the directors and their immediate families in the share capital of the company at 31st March were:

Shareholdings	1997	1996
Personal interests (including holdings, if any, of the director's wife and children under 18)		
Sir Nigel Rudd	156,250	6,250
Roger Leverton	52,005	32,609
Glen Nightingale	29,696	28,882
Andrew Robb	75,000	37,838
Sir Michael Quinlan	2,827	2,750
John Macomber	31,250	31,250
George Simpson	26,702	25,900
Hans-Peter Keitel	-	-

There have been no changes in directors' interests between 31st March 1997 and 5th June 1997.

Options

The directors also held the following options under the senior executives' share option scheme and the savings-related share option schemes. In order to provide concise disclosure and to accord with the requirements of UITF 10, a weighted average exercise price for the options has been calculated, identified separately for those options where the exercise price exceeds the market price of the shares at the year end designated (i), and where the exercise price is below the market price of the shares at the year end designated (ii), as set out below:

		At 1st April 1996	Granted during year		Exercised during year	At 31st March 1997	Weighted average exercise price	Earliest date from which exercisable	Last expiry date
			SAYE share options	Senior executives' share options					
Roger Leverton	(i)	69,864	-	180,869	-	250,733	179.26p	23.6.97	1.7.2006
	(ii)	1,135,070	-	-	400,000	735,070	102.02p	10.8.95	10.8.2002
Glen Nightingale	(i)	415,992	3,286	112,274	-	531,552	195.32p	9.7.90	1.7.2006
	(ii)	15,588	-	-	-	15,588	92.12p	10.8.95	10.8.2002
Andrew Robb	(i)	394,549	-	100,535	5,797	489,287	205.57p	12.1.93	1.7.2006
	(ii)	44,358	-	-	31,365	12,993	73.42p	15.1.98	15.7.1998
		<u>2,075,421</u>	<u>3,286</u>	<u>393,678</u>	<u>437,162</u>	<u>2,035,223</u>	<u>160.54p</u>		

Analysis of total

(i) Exercise price exceeds the market price at 31st March 1997	880,405	3,286	393,678	5,797	1,271,572	196.10p		
(ii) Exercise price is below market price at 31st March 1997	1,195,016	-	-	431,365	763,651	101.33p		
	<u>2,075,421</u>	<u>3,286</u>	<u>393,678</u>	<u>437,162</u>	<u>2,035,223</u>	<u>160.54p</u>		

39 Directors' interests in share capital and options *continued*

Options were granted under the senior executives' share option scheme on 1st July 1996 at 184p per share and under the SAYE share option scheme on 5th July 1996 at 159p per share. No options were granted to Peter Grunwell and Sir Robin Nicholson during the year.

Roger Leverton exercised 400,000 options under the senior executives' share option scheme on 14th June 1996 at an exercise price of 102.02p per share; the market price on the date of exercise was 195p per share. Andrew Robb exercised 31,365 and 5,797 options under the senior executives' share option scheme on 14th June 1996 at an exercise price of 102.02p and 144.93p respectively; the market price on the date of exercise was 195p per share. On 7th June 1996 Peter Grunwell exercised options under the senior executives' share option scheme on 33,119 shares at an exercise price of 144.93p per share, 70,210 shares at an exercise price of 133.17p and 30,973 shares at an exercise price of 102.02p; the market price on the date of exercise was 197.50p.

The aggregate gains made by directors exercising options during the year was £496,000 including gains made by Roger Leverton of £372,000.

Following their retirements during the year, the exercise period for options granted to Sir Robin Nicholson and Peter Grunwell expire on 9th July 1999 and 6th December 1999 respectively.

7,723 of Sir Robin Nicholson's options lapsed during the year. He retains 266,981 options, with a weighted average exercise price of 213.68p, the exercise price of which exceeds the market price at 31st March 1997 and 31,365 options, with a weighted average exercise price of 102.02p, the exercise price of which is below the market price at 31st March 1997.

Peter Grunwell holds 321,015 options, with a weighted average exercise price of 207.28p, the exercise price of which exceeds the market price at 31st March 1997 and 7,926 options, with a weighted average exercise price of 73.42p, the exercise price of which is below the market price at 31st March 1997.

The market price of a Pilkington share at close of business on 31st March 1997 was 120p (1996 – 209p) and the range during 1996/97 was 120p to 219p (1996 – 161p to 222p).

Apart from Sir Robin Nicholson's options, no other options lapsed during the year.

The company's Register of Directors' Interests, which is open to inspection, contains full details of directors' shareholdings and share options.

Deferred bonus plan

Directors are entitled to invest half or all of their performance-related bonus in the company's shares which, if deposited with the deferred bonus plan trustees for three years, will be matched by the company on a one-for-one basis. The company funds the trustees of the plan to enable them to purchase the matching shares at the same time as the director purchases his shares.

Shares purchased by directors for the deferred bonus plan are included in the list of directors' shareholdings above.

The following directors held options to acquire, at no additional cost, the following number of matching shares under the plan:

	Options held at 1st April 1996	Granted during year	Options held at 31st March 1997
Roger Leverton	15,910	12,071	27,981
Andrew Robb	21,214	8,055	29,269

The trustees have waived the dividend on the company's matching shares.

The aggregate cost of the shares purchased by the trustees for the directors' matching shares during the year was £39,000. In accordance with UITF 13, the cost of these shares is charged against profits over the three year option life.

Notes on the financial statements

40 Pensions and similar obligations**Pensions**

The Group operates a number of pension schemes throughout the world. The total pension cost for the Group in 1997 was £55 million (1996 £55 million). Almost two-thirds of employees in the United Kingdom are members of the Pilkington Superannuation Scheme or the Pilkington Pension Scheme, both of which are in the nature of defined contribution schemes. The pension cost charge for the year in respect of those schemes amounted to £12 million (1996 £11 million) and represents contributions payable to the funds for the year. The rest of the schemes operated by the Group are generally defined benefit schemes under which benefits are based on employees' years of service and average final remuneration. With the exception of the main schemes in Germany, assets of the schemes are held in separate trustee administered funds. The method of accounting for pensions is set out under the accounting policies on page 12.

Independent actuarial valuations of the Group's main plans are undertaken at least triennially on varying dates. The actuarial assumptions used to calculate the projected benefit obligation of the Group's pension plans vary according to the economic conditions of the country in which they are situated. The actuarial valuations, based on the projected unit method, assume, on a weighted average basis that the investment return will exceed the increase in the future earnings by 4.2% (1996 – 3.9%). The actuarial value of the fund assets of these plans was sufficient to cover 109% (1996 – 102%) of the benefits that had accrued to members. This surplus is net of a £9 million deficit on the unfunded German pension arrangements, which is being charged over the remaining service lives of the German employees at £1 million per annum. In Germany, the annual charge to the profit and loss account amounted to £12 million (1996 £15 million). The charge is based on an assumed 6% investment return which is fixed by law but salary and pension increase assumptions are not permitted.

The market value of the assets of the major defined benefit plans in the Group at the date of the latest valuations was £477 million (1996 £454 million). Accrued pension costs amounted to £1 million (1996 £1 million) and are included in creditors (note 24), provisions for the benefit obligation of the unfunded plans mentioned above amounted to £173 million (1996 £202 million) and are included in provisions (note 27).

Healthcare benefits

Accounting for unfunded post-retirement healthcare and life insurance benefits of approximately 2,800 employees and 7,100 retirees and their dependants of Libbey-Owens-Ford Co in the USA, and 200 employees and 1,500 retirees and their dependants in the UK, accords with the requirements of UITF Abstract 6.

The Group's obligation for these benefits, principally at Libbey-Owens-Ford Co, were assessed by independent qualified actuaries at 1st April 1996 using the projected unit credit method. The underlying assumptions used in this actuarial review were healthcare costs increasing at 4% per annum and the discount rate to determine the liability of 7.75%.

41 Related party transactions

	1997 £m	1996 £m
<i>Transactions with associated undertakings in the year were:</i>		
Sales of goods	6	9
Purchases of goods	53	40

Amounts owed by and owing to associated undertakings are given in notes 21 and 24 respectively.

Principal undertakings in the Pilkington Group

The following list of subsidiary and associated undertakings and trade investments comprises those companies that principally affect the financial statements of the Group. The percentage beneficial holding in subsidiary and associated undertakings and the issued capital of associated undertakings relate to equity shares unless otherwise specified. All holdings are through Pilkington Brothers Ltd, a direct subsidiary of the parent company, unless otherwise stated. Undertakings indicated + are audited by professional accountants other than Coopers & Lybrand and represent approximately 12% of the Group's assets employed. All subsidiary and associated undertakings account to 31st March 1997 unless otherwise stated.

Subsidiary undertakings	Country of operation and incorporation	% Equity held	Product or activity
Flat and safety glass, Europe			
Pilkington United Kingdom Limited	United Kingdom	100	Glass manufacturing and processing
Triplex Safety Glass Limited	United Kingdom	80	Safety glass
Flachglas AG	Germany	95	Glass manufacturing and processing
Flachglas Automotive GmbH	Germany	95	Glass processing
Flabeg GmbH	Germany	95	Glass processing
Pilkington EOM AG	Austria	95	Glass processing
Pilkington Norge AS	Norway	100	Glass processing
Interpane Glass Products Scandinavia A/S	Denmark	100	Glass processing
Interpane Glas AG	Switzerland	100	Glass processing
Pilkington Floatglas AB	Sweden	100	Glass manufacturing
Pilkington Bilglas AB	Sweden	100	Safety glass
Pilkington Lamino OY	Finland	100	Safety glass
Pilkington Lahden Lasitehdas OY	Finland	100	Glass manufacturing
Pilkington France SA	France	100	Glass processing
Pilkington Danmark A/S	Denmark	100	Glass processing
Pilkington Aerospace Limited	United Kingdom	100	Aircraft transparencies
SIV SpA	Italy	100	Glass manufacturing
Pilkington International Glass Poland SA	Poland	78	Glass processing
Flat and safety glass, North America			
Libbey-Owens-Ford Co	USA	80	Glass manufacturing and processing
Libbey-Nippon Holdings Inc	USA	40	Safety glass
L-N Safety Glass, SA de CV	Mexico	40	Safety glass
Pilkington Aerospace Inc	USA	100	Aircraft transparencies
Flat and safety glass, Rest of the World			
Pilkington (Australia) Limited	Australia	100	Glass manufacturing and processing
Vidrieria Argentina SA+	Argentina	60	Glass manufacturing
Vidrios Lirquen SA+	Chile	31	Glass manufacturing
Santa Lucia Cristal SACIF+	Argentina	60	Safety glass
Pilkington Vidros Limitada	Brazil	97	Glass processing
Blindex Vidros De Seguranca Limitada	Brazil	97	Safety glass
Pilkington (New Zealand) Limited	New Zealand	100	Glass processing
Guilin Pilkington Safety Glass Co Limited	China	60	Glass processing

Principal undertakings in the Pilkington Group

Subsidiary undertakings continued	Country of operation and incorporation	% Equity held	Product or activity
Other trading and service companies			
Pilkington Micronics Limited	United Kingdom	100	Glass for data storage and display
Pilkington Special Glass Limited	United Kingdom	100	Optical and special glass
Pilkington Properties Limited	United Kingdom	100	Property management
Holding and finance companies			
Pilkington Holdings Inc	USA	100	Holding company
Pilkington International Holdings BV	Netherlands	100	Holding company
Pilkington Australasia Limited	Australia	100	Holding company
Pilkington Finance Limited	United Kingdom	100	Finance management
Pilkington (Forex) Limited	United Kingdom	100	Finance management
Pilkington Deutschland GmbH	Germany	100	Holding company
Pilkington Deutschland GmbH preference shares	Germany	nil	
Dahlbusch AG	Germany	99	Investment and property company

Principal associated undertakings	Country of operation and incorporation	Issued share capital and debt securities £m	Accounting date	% Equity held	Product or activity
Cebrace Cristal Plano Limitada	Brazil	133	31.3.97	50	Glass manufacturing
Pilkington Sandoglass Sp.zo.o	Poland	78	31.3.97	40	Glass manufacturing
Hankuk Safety Glass Co Ltd+	South Korea	61	31.12.96	17	Safety glass
Pilkington Optronics Limited	United Kingdom	23	31.3.97	50	Electro-optical systems
Wuhan Yaohua Pilkington Safety Glass Co Limited+	China	13	31.12.96	46	Glass processing
Flovetto SpA	Italy	10	31.12.96	50	Glass manufacturing
Changchun Pilkington Safety Glass Co Limited+	China	8	31.12.96	39	Glass processing

The holding of 17% in Hankuk Safety Glass Co Ltd results from a 20.8% ownership held through Libbey-Owens-Ford Co, which is itself 80% owned by the Group.

Principal trade investments	Country of operation and incorporation	Class of capital	% Equity held			
(a) Significant holdings under 20%						
Shanghai Yaohua Pilkington Glass Co Ltd	China	Paid in capital	8			
	Country of operation and incorporation	Issued share capital and debt securities	£m	Latest accounts	% Equity held	Share capital and reserves £m
(b) Significant holdings in excess of 20%						
Vitro Plan SA de CV	Mexico	Ordinary shares	65	31.12.95	35	195
		Long term debt	115			

The 35% investment in Vitro Plan SA de CV is treated as a trade investment because the Group does not have board representation.

Group financial record

For the years ended 31st March

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	2,919	2,899	2,676	2,737	2,573
Profits					
Operating profit	148	214	170	104	88
Exceptional items	(55)	(157)	(392)	25	(5)
Group profit/(loss) – before taxation and exceptionals	132	212	144	72	46
– before taxation	77	55	(248)	97	41
– after taxation	28	(8)	(292)	65	(5)
Group profit/(loss) attributable to shareholders of Pilkington plc	2	(25)	(323)	40	(20)
Dividends	52	48	34	32	31
Assets employed					
Tangible assets	1,596	1,845	1,659	1,663	1,732
Investments in associated and other undertakings	181	200	224	225	164
Net current assets*	445	617	330	501	639
Total assets less current liabilities*	2,222	2,662	2,213	2,389	2,535
Financed by					
Total shareholders' funds*	837	971	826	783	812
Minority interests*	286	303	303	271	254
Creditors over one year, provisions and deferred income*	1,099	1,388	1,084	1,335	1,469
Funds invested*	2,222	2,662	2,213	2,389	2,535
Cash flow from					
Operating activities	288	217	328	306	207
Returns on investments and servicing of finance	(25)	(59)	(69)	(55)	(64)
Taxation (paid)/received	(44)	(67)	(19)	8	(52)
Capital expenditure (net)	(130)	(183)	(141)	(107)	(97)
Acquisitions and disposals	51	(160)	48	49	(16)
Dividends	(50)	(33)	(29)	(18)	(43)
Liquid resources	(1)	49	(42)	(4)	(1)
Financing	(107)	232	(56)	(140)	70
(Decrease)/increase in cash	(18)	(4)	20	39	4
Key figures					
Capital expenditure on tangible assets	186	232	161	125	129
Operating profit before exceptional items to turnover	5.1%	7.4%	6.4%	3.7%	3.4%
Earnings/(loss) per share	0.2p	(2.9p)	(40.7p)	5.1p	(2.6p)
Earnings/(loss) per share excluding exceptional items	5.8p	14.0p	8.6p	2.0p	(1.9p)
Dividends per share – declared	5.0p	5.0p	4.2p	4.0p	4.0p
– gross equivalent	6.3p	6.3p	5.3p	5.0p	5.3p
Dividend cover	0.04	(0.5)	(9.5)	1.2	(0.6)
Share price					
– high	219p	222p	207p	203p	164p
– low	120p	161p	143p	114p	70p
– as at 31st March	120p	209p	164p	183p	125p
Warrant price					
– high	102p	105p	100p	96p	–
– low	16p	55p	45p	29p	–
– as at 31st March	16p	93p	59p	83p	–

*The figures for 1993 have been amended in respect of the change in accounting policy on healthcare benefits which was made in 1994. The amendments have been based on the dollar and sterling liabilities in respect of healthcare benefits as at 1st April 1994.

Results and cash flow for the years 1993 to 1994 (inclusive) have not been restated to reflect the use of average exchange rates.

Cash flow figures for the years 1993 to 1996 (inclusive) have been amended to take account of the revision to FRS 1.

Registered in England No. 41495

Designed and produced by Pauffley

Type origination by Wordwork plc

Printed by Wace Corporate Print



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Pilkington plc
St Helens United Kingdom